

**CITY OF DURAND, MICHIGAN**

**ANNUAL FINANCIAL STATEMENTS**  
**with Supplementary Information**

**FOR THE YEAR ENDED**  
**JUNE 30, 2008**



# CITY OF DURAND, MICHIGAN

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Durand, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Durand's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2008, on our consideration of the City of Durand's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and budgetary comparisons on pages 40 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Durand's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

December 8, 2008

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand's 2008 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

#### *Government-wide Financial Statements*

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the City's net assets and how they have changed. Net assets, defined as the difference between the City's assets and liabilities, are one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into two categories:

**Governmental activities** – most of the City's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

**Business-type activities** – the City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer and refuse operations are treated as business-type activities.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three types of funds:

**Governmental funds** – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City currently has 14 governmental funds.

**Proprietary Funds** – Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The City maintains two different types of proprietary funds.

**Enterprise Funds** – are used to report services for which the City charges customers a fee for those services. The City has three enterprise funds, the Water, Sewer and Refuse Funds.

**Internal Service Funds** – reports activities that provide services and supplies to other City programs. The City utilizes a Motor Pool internal service fund.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's operations. The City has two fiduciary funds, the Employee Benefits Trust Fund and the Tax Agency Fund.

## **FINANCIAL OVERVIEW (Government-wide financial analysis)**

The City has combined total net assets of 11.7 million. This is an increase of \$367,124 over 2007. Government-type activities comprise \$4.3 million, and business-type activities make up \$7.4 million of the total net assets. In a condensed format, the table below shows net asset as of the June 30, 2008 and 2007.

|                              | Governmental<br>Activities |                 | Business-type<br>Activities |                 |
|------------------------------|----------------------------|-----------------|-----------------------------|-----------------|
|                              | 2008                       | 2007            | 2008                        | 2007            |
| <b>In Thousands</b>          |                            |                 |                             |                 |
| <b>Assets</b>                |                            |                 |                             |                 |
| Current assets               | \$ 1,439                   | \$ 1,223        | \$ 1,011                    | \$ 951          |
| Restricted assets            | 28                         | 28              | 181                         | 334             |
| Capital assets               | <u>5,794</u>               | <u>5,913</u>    | <u>7,765</u>                | <u>7,774</u>    |
| Total assets                 | <u>\$ 7,261</u>            | <u>\$ 7,164</u> | <u>\$ 8,957</u>             | <u>\$ 9,059</u> |
| <b>Liabilities</b>           |                            |                 |                             |                 |
| Current liabilities          | 69                         | 68              | 45                          | 57              |
| Long-term liabilities        | <u>2,859</u>               | <u>3,046</u>    | <u>1,553</u>                | <u>1,727</u>    |
| Total liabilities            | <u>\$ 2,928</u>            | <u>\$ 3,114</u> | <u>\$ 1,598</u>             | <u>\$ 1,784</u> |
| <b>Net Assets</b>            |                            |                 |                             |                 |
| Invested in capital assets – |                            |                 |                             |                 |
| Net of related debt          | 2,939                      | 2,871           | 6,220                       | 6,054           |
| Restricted                   | 667                        | 626             | 197                         | 349             |
| Unrestricted                 | <u>727</u>                 | <u>553</u>      | <u>942</u>                  | <u>872</u>      |
| Total net assets             | <u>\$ 4,333</u>            | <u>\$ 4,050</u> | <u>\$ 7,359</u>             | <u>\$ 7,275</u> |

The City's governmental activities experienced a net change in assets of \$283,566. The business-type activities experienced an increase in net assets of \$83,558, which is approximately 14% of annual expenses.

The following table shows the changes in net assets for 2008 and 2007:

|                                    | Governmental<br>Activities |                 | Business-type<br>Activities |                 |
|------------------------------------|----------------------------|-----------------|-----------------------------|-----------------|
|                                    | 2008                       | 2007            | 2008                        | 2007            |
| <b>In Thousands</b>                |                            |                 |                             |                 |
| <b>Revenue</b>                     |                            |                 |                             |                 |
| Program Revenue                    |                            |                 |                             |                 |
| Charges for services               | \$ 191                     | \$ 87           | \$ 1,546                    | \$ 1,572        |
| Operating grants and contributions | 257                        | 252             | 19                          | -               |
| Capital grants and contributions   | 134                        | 675             | -                           | -               |
| General Revenue                    |                            |                 |                             |                 |
| Property taxes                     | 1,441                      | 1,401           | -                           | -               |
| State-shared revenue               | 507                        | 510             | -                           | -               |
| Unrestricted investment earnings   | 50                         | 62              | 28                          | 38              |
| Franchise fees                     | <u>89</u>                  | <u>29</u>       | <u>-</u>                    | <u>-</u>        |
| Total Revenue                      | <u>\$ 2,669</u>            | <u>\$ 3,016</u> | <u>\$ 1,593</u>             | <u>\$ 1,610</u> |
| <b>Program Expenses</b>            |                            |                 |                             |                 |
| General government                 | 406                        | 442             | -                           | -               |
| Public safety                      | 822                        | 799             | -                           | -               |
| Public works                       | 887                        | 591             | -                           | -               |
| Recreation and culture             | 129                        | 124             | -                           | -               |
| Interest on long-term debt         | 142                        | 135             | -                           | -               |
| Water                              | -                          | -               | 570                         | 535             |
| Sewer                              | -                          | -               | 749                         | 640             |
| Refuse                             | -                          | -               | 191                         | 189             |
| Loss on disposal                   | <u>-</u>                   | <u>-</u>        | <u>-</u>                    | <u>-</u>        |
| Total Program Expenses             | <u>2,386</u>               | <u>2,091</u>    | <u>1,570</u>                | <u>1,364</u>    |
| <b>Changes in Net Assets</b>       | <u>\$ 283</u>              | <u>\$ 925</u>   | <u>\$ 83</u>                | <u>\$ 246</u>   |

#### ***Governmental Activities***

Revenues for governmental activities totaled \$2.7 million in 2008. Of this amount \$1.4 million or 54% was received from taxes followed by state Shared Revenue of 0.5 million or 19%.

#### ***Business-type Activities***

The City has three business-type activities, water, wastewater and refuse operations. The City operates its own water and sewage treatment facility and contracts for refuse collections. The water, wastewater and refuse services funds had a net increase in net assets of \$4,766, \$75,573 and \$3,219, respectively.



## FINANCIAL ANALYSIS OF MAJOR FUNDS

The general fund ended 2008 with a fund balance of \$642,387, of which \$61,851 was reserved for specific purposes, \$100,000 designated for retiree health insurance, with the remaining amount of \$480,536 unreserved and undesignated. This is an increase of \$169,772 from the prior year.

The City's other major funds, the Major Street, Local Street and Main Street Project Funds ended 2008 with fund balances of \$127,701, \$63,616 and \$ - , respectively. This is an increase of \$31,466 for the Major Street Fund, a decrease of \$31,095 for the Local Street Fund and a decrease of 1,189 for Main Street Project Fund.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. There were no significant budget amendments during the year for any of the City's Major Funds.

Also, the only significant difference between actual and budget was in the General Fund, which budgeted other revenues of \$21,195 but actual was \$120,701. The reason for the variance was the proceeds from insurance and sale of land.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The City had \$13.6 million dollars invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2008. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the City added \$456,000 of capital assets before taking into account depreciation. Depreciation for the year was \$412,841. The following table shows the capital assets at June 30, 2008 and 2007:

|                           | Governmental<br>Activities |                     | Business-type<br>Activities |                     |
|---------------------------|----------------------------|---------------------|-----------------------------|---------------------|
|                           | 2008                       | 2007                | 2008                        | 2007                |
| Land                      | \$ 1,547,052               | \$ 1,597,052        | \$ 151,400                  | \$ 151,400          |
| Building and improvements | 3,290,837                  | 3,290,837           | 3,784,515                   | 3,784,515           |
| Machinery and equipment   | 1,099,386                  | 1,058,436           | 68,154                      | 68,154              |
| Vehicles                  | 976,429                    | 995,727             | -                           | -                   |
| Infrastructure            | 1,576,937                  | 604,463             | -                           | -                   |
| Water and sewer systems   | -                          | -                   | 9,544,197                   | 8,720,732           |
| Construction in progress  | 12,330                     | 858,790             | 26,558                      | 587,816             |
|                           | 8,502,971                  | 8,405,305           | 13,574,824                  | 13,312,617          |
| Accumulated depreciation  | ( 2,709,054)               | ( 2,492,563)        | ( 5,810,213)                | ( 5,539,004)        |
|                           | <u>\$ 5,793,917</u>        | <u>\$ 5,912,742</u> | <u>\$ 7,764,611</u>         | <u>\$ 7,773,613</u> |

During the year, the City added \$190,703 of assets to the governmental activities, which included \$76,014 in improvements to Main Street and \$114,689 in vehicles and equipment. The business-type activities added \$265,281 mainly as improvements to the wastewater and water supply systems.

## Long-term Debt

At June 30, 2008, the City had \$4,412,175 in long-term debt compared to \$4,772,916 at June 30, 2007. There was no debt issued during the year.

|                           | Governmental<br>Activities |                     | Business-type<br>Activities |                     |
|---------------------------|----------------------------|---------------------|-----------------------------|---------------------|
|                           | 2008                       | 2007                | 2008                        | 2007                |
| General Obligation Bonds  | \$ 2,285,000               | \$ 2,425,000        | \$ -                        | \$ -                |
| Capital Improvement Bonds | -                          | -                   | 545,000                     | 645,000             |
| Revenue Bonds             | -                          | -                   | 1,000,000                   | 1,075,000           |
| Installment Loans         | 570,128                    | 617,163             | -                           | -                   |
| Compensated Absences      | 3,720                      | 3,883               | 8,327                       | 6,870               |
|                           | <u>\$ 2,858,848</u>        | <u>\$ 3,046,046</u> | <u>\$ 1,553,327</u>         | <u>\$ 1,726,870</u> |

In addition the City funds compensated absences earned in governmental funds in the Employee Benefit Fund, the long-term liability amounted to \$34,950.

## ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Michigan economy continues to struggle and 2008-09 shows no signs of relief for the Michigan economy, as economists forecast recession conditions for the next 36 months. The economic climate has an adverse impact on the City of Durand. The impact is felt financially and, in turn, negatively impacts our ability to reinvest in the community and provide services. The freeze in state shared revenues has been in effect for the past seven years. The City of Durand continues to operate on the same level of state shared revenues since 2001. Actually, the City received more revenue from the State of Michigan in 1999 than in 2007. In 2006-07 state shared revenue was \$510,192 and this year the city received \$507,368.

While experiencing a small growth in revenue from local taxes, fuel costs climbed at a whopping 47% increase. Another financial challenge continues to be providing employee health benefits while containing costs to the rate of inflation. For the past 10 years, healthcare costs have risen 15-20% annually.

The City of Durand is currently working on several development/redevelopment projects that will provide more employment, assist in stabilizing the local economy and reutilize existing land and buildings within the city. Sycamore House, a 40 unit senior citizen housing complex will open in September 2009, a redevelopment of the old, former junior high school. WODA Development, Inc. of Columbus, Ohio will invest approximately 5 million dollars in this project. Sagelink Credit Union is relocating its headquarters to downtown Durand in May 2009. Sagelink is investing 1.4 million dollars to build an architecturally design building reminiscent of Durand Union Station. Along with their investment, Sagelink will bring 45 new jobs to the downtown community.

The City Administration continues to work with developers and the Shiawassee Economic Development Partnership to promote economic stability to Durand and the surrounding area. The partnership is six years old and the City expects more development and economic opportunities as a result of this partnership.

## CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the City of Durand administration at City Hall (989) 288-3113.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF DURAND, MICHIGAN

## STATEMENT OF NET ASSETS JUNE 30, 2008

|   | Primary Government      |                          |                      | Component Unit    |
|---|-------------------------|--------------------------|----------------------|-------------------|
|   | Governmental Activities | Business Type Activities | Total                | DDA               |
| <b>ASSETS:</b>  |                         |                          |                      |                   |
| Cash and cash equivalents                                   | \$ 731,316              | \$ 588,175               | \$ 1,319,491         | \$ 110,658        |
| Investments   | 158,006                 | 113,184                  | 271,190              | -                 |
| Receivables   | 446,568                 | 309,613                  | 756,181              | 17,576            |
| Prepaid expenses  | 44,671                  | 11,531                   | 56,202               | -                 |
| Internal balances   | 51,600                  | ( 51,600)                | -                    | -                 |
| Inventory   | 7,140                   | 39,658                   | 46,798               | -                 |
| Restricted Assets -   |                         |                          |                      |                   |
| Cash and cash equivalents                                   | 28,330                  | 31,153                   | 59,483               | -                 |
| Investments   | -                       | 150,469                  | 150,469              | -                 |
| Capital assets (net of accumulated depreciation)            |                         |                          |                      |                   |
| Assets not being depreciated                                | 1,559,382               | 177,958                  | 1,737,340            | 627,036           |
| Assets being depreciated                                    | 4,234,535               | 7,586,653                | 11,821,188           | 206,220           |
| Total Assets  | <u>7,261,548</u>        | <u>8,956,794</u>         | <u>16,218,342</u>    | <u>961,490</u>    |
| <b>LIABILITIES:</b>   |                         |                          |                      |                   |
| Payables and accrued liabilities                            | 45,769                  | 20,187                   | 65,956               | 568               |
| Accrued interest  | 23,772                  | 12,782                   | 36,554               | 416               |
| Due to other governmental units                             | -                       | -                        | -                    | 16,431            |
| Deposits  | -                       | 12,005                   | 12,005               | -                 |
| Non-current liabilities                                     |                         |                          |                      |                   |
| Due within one year   | 199,005                 | 200,000                  | 399,005              | 25,000            |
| Due in more than one year                                   | 2,659,843               | 1,353,327                | 4,013,170            | 700,000           |
| Total Liabilities   | <u>2,928,389</u>        | <u>1,598,301</u>         | <u>4,526,690</u>     | <u>742,415</u>    |
| <b>NET ASSETS:</b>  |                         |                          |                      |                   |
| Investment in capital assets,<br>net of related liabilities | 2,938,789               | 6,219,611                | 9,158,400            | 108,256           |
| Restricted  |                         |                          |                      |                   |
| Acquisition/construction of capital assets                  | 2,197                   | -                        | 2,197                | -                 |
| Debt service  | 113,095                 | 181,622                  | 294,717              | -                 |
| Well head protection  | -                       | 15,000                   | 15,000               | -                 |
| Streets and sidewalks                                       | 376,420                 | -                        | 376,420              | -                 |
| Public safety   | 95,000                  | -                        | 95,000               | -                 |
| Other   | 80,381                  | -                        | 80,381               | 12,236            |
| Unrestricted  | <u>727,277</u>          | <u>942,260</u>           | <u>1,669,537</u>     | <u>98,583</u>     |
| Total Net Assets  | <u>\$ 4,333,159</u>     | <u>\$ 7,358,493</u>      | <u>\$ 11,691,652</u> | <u>\$ 219,075</u> |

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

| Functions/Programs             | Expenses          | Program Revenues     |                                    |                                  |
|--------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|
|                                |                   | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary Government</b>      |                   |                      |                                    |                                  |
| Governmental activities:       |                   |                      |                                    |                                  |
| General Government             | \$ 406,328        | \$ 65,121            | \$ -                               | \$ -                             |
| Public Safety                  | 821,821           | 119,237              | 13,183                             | -                                |
| Public Works                   | 886,353           | -                    | 244,201                            | 133,072                          |
| Recreation and Culture         | 129,173           | 7,010                | -                                  | 651                              |
| Interest on Long Term Debt     | 141,287           | -                    | -                                  | -                                |
| Total governmental activities  | <u>2,384,962</u>  | <u>191,368</u>       | <u>257,384</u>                     | <u>133,723</u>                   |
| Business type activities:      |                   |                      |                                    |                                  |
| Water Supply System            | 569,877           | 548,374              | 18,765                             | -                                |
| Wastewater                     | 748,940           | 803,572              | -                                  | -                                |
| Refuse Services                | 191,209           | 193,763              | -                                  | -                                |
| Total business type activities | <u>1,510,026</u>  | <u>1,545,709</u>     | <u>18,765</u>                      | <u>-</u>                         |
| Total Primary Government       | <u>3,894,988</u>  | <u>1,737,077</u>     | <u>276,149</u>                     | <u>133,723</u>                   |
| <b>Component Unit</b>          |                   |                      |                                    |                                  |
| Downtown Development Authority | 124,135           | -                    | -                                  | -                                |
| Total Component Units          | <u>\$ 124,135</u> | <u>\$ -</u>          | <u>\$ -</u>                        | <u>\$ -</u>                      |

General revenues:

Taxes

Property taxes levied for general purposes

Property taxes levied for streets

Property taxes levied for debt purposes

Grants and contribution not  
restricted to specific programs

Sales taxes

Franchise fees

Other

Unrestricted investment income

Insurance proceeds

Transfers in (out)

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

| Primary Government         |                             |               | Component<br>Unit<br>DDA |
|----------------------------|-----------------------------|---------------|--------------------------|
| Governmental<br>Activities | Business Type<br>Activities | Total         |                          |
| \$( 341,207)               | \$ -                        | \$( 341,207)  | \$ -                     |
| ( 689,401)                 | -                           | ( 689,401)    | -                        |
| ( 509,080)                 | -                           | ( 509,080)    | -                        |
| ( 121,512)                 | -                           | ( 121,512)    | -                        |
| ( 141,287)                 | -                           | ( 141,287)    | -                        |
| ( 1,802,487)               | -                           | ( 1,802,487)  | -                        |
| -                          | ( 2,738)                    | ( 2,738)      | -                        |
| -                          | 54,632                      | 54,632        | -                        |
| -                          | 2,554                       | 2,554         | -                        |
| -                          | 54,448                      | 54,448        | -                        |
| ( 1,802,487)               | 54,448                      | ( 1,748,039)  | -                        |
| -                          | -                           | -             | ( 124,135)               |
| -                          | -                           | -             | ( 124,135)               |
| 1,164,389                  | -                           | 1,164,389     | -                        |
| 66,616                     | -                           | 66,616        | -                        |
| 209,724                    | -                           | 209,724       | 80,156                   |
| 507,368                    | -                           | 507,368       | -                        |
| 30,750                     | -                           | 30,750        | -                        |
| -                          | -                           | -             | 37,848                   |
| 50,258                     | 28,021                      | 78,279        | 1,461                    |
| 58,037                     | -                           | 58,037        | -                        |
| ( 1,089)                   | 1,089                       | -             | -                        |
| 2,086,053                  | 29,110                      | 2,115,163     | 119,465                  |
| 283,566                    | 83,558                      | 367,124       | ( 4,670)                 |
| 4,049,593                  | 7,274,935                   | 11,324,528    | 223,745                  |
| \$ 4,333,159               | \$ 7,358,493                | \$ 11,691,652 | \$ 219,075               |

# CITY OF DURAND, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2008

|  | <u>General</u>           | <u>Major<br/>Street</u>  | <u>Local<br/>Street</u> | <u>Main Street<br/>Project</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|--------------------------|--------------------------|-------------------------|--------------------------------|---|---|
| <b>ASSETS</b>                            |                          |                          |                         |                                |   |   |
| <b>Assets:</b>                           |                          |                          |                         |                                |   |   |
| Cash and cash equivalents                | \$ 197,947               | \$ 98,335                | \$ 50,359               | \$ -                           | \$ 262,766                              | \$ 609,407                              |
| Investments                              | 1,322                    | -                        | -                       | -                              | 156,684                                 | 158,006                                 |
| Receivables -                            |                          |                          |                         |                                |   |   |
| Interest and accounts                    | 11,525                   | -                        | -                       | -                              | -                                       | 11,525                                  |
| Special assessments                      | -                        | -                        | -                       | -                              | 10,056                                  | 10,056                                  |
| Prepayments and deposits                 | 33,521                   | -                        | -                       | -                              | -                                       | 33,521                                  |
| Due from other governmental units -      |                          |                          |                         |                                |   |   |
| Federal/State                            | 188,390                  | 27,527                   | 10,670                  | 198,400                        | -                                       | 424,987                                 |
| Due from other funds                     | 221,635                  | -                        | -                       | 51,600                         | 26,391                                  | 299,626                                 |
| Inventories                              | -                        | 2,305                    | 3,037                   | -                              | -                                       | 5,342                                   |
| Restricted Assets -                      |                          |                          |                         |                                |   |   |
| Cash and cash equivalents                | 28,330                   | -                        | -                       | -                              | -                                       | 28,330                                  |
| <b>Total Assets</b>                      | <u><u>\$ 682,670</u></u> | <u><u>\$ 128,167</u></u> | <u><u>\$ 64,066</u></u> | <u><u>\$ 250,000</u></u>       | <u><u>\$ 455,897</u></u>                | <u><u>\$ 1,580,800</u></u>              |
| <b>Liabilities:</b>                      |                          |                          |                         |                                |   |   |
| Accounts payable                         | \$ 37,485                | \$ 466                   | \$ 450                  | \$ 1,974                       | \$ 550                                  | \$ 40,925                               |
| Accrued liabilities                      | 2,798                    | -                        | -                       | -                              | -                                       | 2,798                                   |
| Due to other funds                       | -                        | -                        | -                       | 248,026                        | -                                       | 248,026                                 |
| Deferred revenue                         | -                        | -                        | -                       | -                              | 7,901                                   | 7,901                                   |
| <b>Total Liabilities</b>                 | <u>40,283</u>            | <u>466</u>               | <u>450</u>              | <u>250,000</u>                 | <u>8,451</u>                            | <u>299,650</u>                          |
| <b>Fund Balances:</b>                    |                          |                          |                         |                                |   |   |
| Reserved                                 | 61,851                   | 2,305                    | 3,037                   | -                              | 115,292                                 | 182,485                                 |
| Unreserved -                             |                          |                          |                         |                                |   |   |
| Designated -                             | 100,000                  | -                        | -                       | -                              | -                                       | 100,000                                 |
| Undesignated -                           |                          |                          |                         |                                |   |   |
| General Fund                             | 480,536                  | -                        | -                       | -                              | -                                       | 480,536                                 |
| Special Revenue Funds                    | -                        | 125,396                  | 60,579                  | -                              | 332,154                                 | 518,129                                 |
| Total Equity                             | <u>642,387</u>           | <u>127,701</u>           | <u>63,616</u>           | <u>-</u>                       | <u>447,446</u>                          | <u>1,281,150</u>                        |
| <b>Total Liabilities and Fund Equity</b> | <u><u>\$ 682,670</u></u> | <u><u>\$ 128,167</u></u> | <u><u>\$ 64,066</u></u> | <u><u>\$ 250,000</u></u>       | <u><u>\$ 455,897</u></u>                | <u><u>\$ 1,580,800</u></u>              |

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2008

|  |    |           |
|--|----|-----------|
| Fund Balances - total governmental funds | \$ | 1,281,150 |
|--|----|-----------|

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

|                          |   |            |
|--------------------------|---|------------|
| Capital assets           |   | 6,555,827  |
| Accumulated depreciation | ( | 1,364,069) |

Other long term assets are not available to pay for current period  
expenditures and, therefore, are deferred in the funds.

|                     |  |       |
|---------------------|--|-------|
| Special Assessments |  | 7,901 |
|---------------------|--|-------|

Internal service fund used by management to charge cost of  
the City's equipment revolving activities. The assets and liabilities of the  
internal service funds are included in governmental activities in the  
statement of net assets.

|  |  |         |
|--|--|---------|
|  |  | 562,936 |
|--|--|---------|

Long - term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the funds.

|                     |   |            |              |
|---------------------|---|------------|--------------|
| Bonds/notes payable | ( | 2,686,814) |              |
| Accrued interest    | ( | 23,772)    | ( 2,710,586) |

Net Assets of governmental activities

|    |                  |
|----|------------------|
| \$ | <u>4,333,159</u> |
|----|------------------|

The accompanying notes are an integral part of these financial statements.



# CITY OF DURAND, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

|  | General           | Major<br>Street   | Local<br>Street   | Main Street<br>Project | Other<br>Governmental<br>Fund | Total<br>Governmental<br>Funds |
|--|-------------------|-------------------|-------------------|------------------------|-------------------------------|--------------------------------|
| <b>Revenues:</b>                       |                   |                   |                   |                        |                               |                                |
| Taxes                                  | \$ 1,202,156      | \$ -              | \$ -              | \$ -                   | \$ 276,340                    | \$ 1,478,496                   |
| Licenses and permits                   | 32,222            | -                 | -                 | -                      | 101,318                       | 133,540                        |
| Intergovernmental -                    |                   |                   |                   |                        |                               |                                |
| Federal/State                          | 520,551           | 168,067           | 76,134            | 114,900                | -                             | 879,652                        |
| Charges for services                   | 18,809            | -                 | -                 | -                      | -                             | 18,809                         |
| Fines and forfeits                     | 10,249            | -                 | -                 | -                      | -                             | 10,249                         |
| Interest and rent                      | 43,137            | 2,372             | 466               | 947                    | 13,076                        | 59,998                         |
| Special assessment                     | -                 | -                 | -                 | -                      | 16,850                        | 16,850                         |
| Other                                  | 120,701           | -                 | -                 | -                      | -                             | 120,701                        |
| Total Revenues                         | <u>1,947,825</u>  | <u>170,439</u>    | <u>76,600</u>     | <u>115,847</u>         | <u>407,584</u>                | <u>2,718,295</u>               |
| <b>Expenditures:</b>                   |                   |                   |                   |                        |                               |                                |
| Current -                              |                   |                   |                   |                        |                               |                                |
| General Government                     | 387,195           | -                 | -                 | -                      | -                             | 387,195                        |
| Public Safety                          | 762,475           | -                 | -                 | -                      | 49,305                        | 811,780                        |
| Public Works                           | 459,838           | 120,973           | 223,195           | 89,742                 | 27,476                        | 921,224                        |
| Recreation and Cultural                | 87,963            | -                 | -                 | -                      | -                             | 87,963                         |
| Debt Service                           |                   |                   |                   |                        |                               |                                |
| Principal                              | 26,585            | -                 | -                 | -                      | 140,000                       | 166,585                        |
| Interest                               | 17,927            | -                 | -                 | -                      | 114,812                       | 132,739                        |
| Total Expenditures                     | <u>1,741,983</u>  | <u>120,973</u>    | <u>223,195</u>    | <u>89,742</u>          | <u>331,593</u>                | <u>2,507,486</u>               |
| Revenues over (under) expenditures     | <u>205,842</u>    | <u>49,466</u>     | <u>( 146,595)</u> | <u>26,105</u>          | <u>75,991</u>                 | <u>210,809</u>                 |
| <b>Other Financing Sources (Uses):</b> |                   |                   |                   |                        |                               |                                |
| Transfers from other funds             | -                 | -                 | 115,500           | -                      | 62,461                        | 177,961                        |
| Transfers to other funds               | ( 36,070)         | ( 18,000)         | -                 | ( 27,294)              | ( 97,686)                     | ( 179,050)                     |
| Total Other Financing Sources (Uses)   | <u>( 36,070)</u>  | <u>( 18,000)</u>  | <u>115,500</u>    | <u>( 27,294)</u>       | <u>( 35,225)</u>              | <u>( 1,089)</u>                |
| Net change in Fund Balance             | 169,772           | 31,466            | ( 31,095)         | ( 1,189)               | 40,766                        | 209,720                        |
| Fund Balances at beginning of year     | <u>472,615</u>    | <u>96,235</u>     | <u>94,711</u>     | <u>1,189</u>           | <u>406,680</u>                | <u>1,071,430</u>               |
| Fund Balances at end of year           | <u>\$ 642,387</u> | <u>\$ 127,701</u> | <u>\$ 63,616</u>  | <u>\$ -</u>            | <u>\$ 447,446</u>             | <u>\$ 1,281,150</u>            |

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2008

|   |   |              |                       |
|---|---|--------------|-----------------------|
| Net change in fund balances - total governmental funds  |   | \$           | 209,720               |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. |   |              |                       |
| Capital outlay  |   |              | 126,014               |
| Proceeds for sale of asset  | ( | 50,000)      |                       |
| Depreciation expense  | ( | 138,558)     |                       |
| Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.   |   |              |                       |
| Special assessments   |   |              | 1,322                 |
| Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.   |   |              |                       |
| Principal payments on long term liabilities   |   | 166,585      |                       |
| Decrease in accrued interest  | ( | <u>8,548</u> | 158,037               |
| Internal service funds used by management to charge costs of the City's equipment revolving activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.       |   |              |                       |
|   |   | (            | <u>22,969</u> )       |
| Change in net assets of governmental activities   |   | \$           | <u><u>283,566</u></u> |

The accompanying notes are an integral part of these financial statements.

**CITY OF DURAND, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2008**

|  | Business Type Activities-Enterprise Funds |              |                   |              | Governmental<br>Activities  |
|--|---|--------------|-------------------|--------------|-----------------------------|
|  | Water                                     | Wastewater   | Refuse<br>Service | Total        | Internal<br>Service<br>Fund |
| <b>ASSETS:</b>   |   |              |                   |              |                             |
| <b>Current Assets:</b>   |   |              |                   |              |                             |
| Cash and cash equivalents  | \$ 80,787                                 | \$ 465,983   | \$ 41,405         | \$ 588,175   | \$ 121,909                  |
| Investment   | -   | 113,184      | -                 | 113,184      | -                           |
| Accounts and interest receivable   | 116,378                                   | 180,780      | 12,455            | 309,613      | -                           |
| Due from other funds   | -   | 11,461       | -                 | 11,461       | -                           |
| Inventories  | 39,658                                    | -            | -                 | 39,658       | 1,798                       |
| Prepaid expenses   | 5,513                                     | 6,018        | -                 | 11,531       | 11,150                      |
| <b>Restricted Assets:</b>  |   |              |                   |              |                             |
| Cash and cash equivalents  | 9,087                                     | 22,066       | -                 | 31,153       | -                           |
| Investments  | -   | 150,469      | -                 | 150,469      | -                           |
| Total Current Assets   | 251,423                                   | 949,961      | 53,860            | 1,255,244    | 134,857                     |
| <b>Property, Plant and Equipment:</b>                                    |   |              |                   |              |                             |
| Property, plant and equipment  | 5,480,009                                 | 8,094,815    | -                 | 13,574,824   | 1,947,144                   |
| Less - accumulated depreciation  | ( 1,841,647)                              | ( 3,968,566) | -                 | ( 5,810,213) | ( 1,344,985)                |
| Total Property, Plant and Equipment<br>(net of accumulated depreciation) | 3,638,362                                 | 4,126,249    | -                 | 7,764,611    | 602,159                     |
| Total Assets   | 3,889,785                                 | 5,076,210    | 53,860            | 9,019,855    | 737,016                     |
| <b>LIABILITIES:</b>  |   |              |                   |              |                             |
| <b>Current Liabilities:</b>  |   |              |                   |              |                             |
| Accounts payable   | 5,603                                     | 13,213       | -                 | 18,816       | 1,617                       |
| Accrued expenses   | 648                                       | 723          | -                 | 1,371        | 429                         |
| Interest payable   | 2,258                                     | 10,524       | -                 | 12,782       | -                           |
| Due to other funds   | 57,022                                    | 6,039        | -                 | 63,061       | -                           |
| Bonds/Notes payable (current portion)                                    | 59,000                                    | 141,000      | -                 | 200,000      | 21,278                      |
| Customer deposits  | 12,005                                    | -            | -                 | 12,005       | -                           |
| Total Current Liabilities  | 136,536                                   | 171,499      | -                 | 308,035      | 23,324                      |
| <b>Long-Term Liabilities (net of current portions):</b>                  |   |              |                   |              |                             |
| Accrued vacation and sick  | 4,595                                     | 3,732        | -                 | 8,327        | 3,720                       |
| Notes payable (net of current portion)                                   | 274,500                                   | 1,070,500    | -                 | 1,345,000    | 147,036                     |
| Total Long-Term Liabilities  | 279,095                                   | 1,074,232    | -                 | 1,353,327    | 150,756                     |
| Total Liabilities  | 415,631                                   | 1,245,731    | -                 | 1,661,362    | 174,080                     |
| <b>NET ASSETS:</b>   |   |              |                   |              |                             |
| Investment in capital assets, net<br>of related liabilities              | 3,304,862                                 | 2,914,749    | -                 | 6,219,611    | 433,845                     |
| Restricted -   |   |              |                   |              |                             |
| Debt service   | 9,087                                     | 172,535      | -                 | 181,622      | -                           |
| Well head protection   | 15,000                                    | -            | -                 | 15,000       | -                           |
| Unrestricted -   |   |              |                   |              |                             |
| Undesignated   | 145,205                                   | 743,195      | 53,860            | 942,260      | 129,091                     |
| Total Net Assets   | \$ 3,474,154                              | \$ 3,830,479 | \$ 53,860         | \$ 7,358,493 | \$ 562,936                  |

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2008

|   | Business Type Activities-Enterprise Funds |                     |                   |                     | Governmental<br>Activities  |
|---|---|---------------------|-------------------|---------------------|-----------------------------|
|   | Water                                     | Wastewater          | Refuse<br>Service | Total               | Internal<br>Service<br>Fund |
| <b>Operating Revenues:</b>                |   |                     |                   |                     |                             |
| Charges for services                      | \$ 516,101                                | \$ 765,556          | \$ 187,465        | \$ 1,469,122        | \$ 381,166                  |
| Hydrant Rental                            | 7,500                                     | -                   | -                 | 7,500               | -                           |
| Other                                     | 43,538                                    | 38,016              | 6,298             | 87,852              | 5,234                       |
| Total Operating Revenues                  | <u>567,139</u>                            | <u>803,572</u>      | <u>193,763</u>    | <u>1,564,474</u>    | <u>386,400</u>              |
| <b>Operating Expenses:</b>                |   |                     |                   |                     |                             |
| Personal services                         | 141,038                                   | 212,314             | -                 | 353,352             | 68,626                      |
| Administrative expenses                   | 110,000                                   | 110,000             | 36,000            | 256,000             | 45,000                      |
| Supplies and postage                      | 17,912                                    | 28,914              | 2,053             | 48,879              | 263                         |
| Other services                            | 179,446                                   | 154,023             | 153,156           | 486,625             | 131,611                     |
| Depreciation                              | 106,687                                   | 167,596             | -                 | 274,283             | 168,274                     |
| Total Operating Expenses                  | <u>555,083</u>                            | <u>672,847</u>      | <u>191,209</u>    | <u>1,419,139</u>    | <u>413,774</u>              |
| Operating income (loss)                   | <u>12,056</u>                             | <u>130,725</u>      | <u>2,554</u>      | <u>145,335</u>      | <u>( 27,374)</u>            |
| <b>Non-Operating Revenues (Expenses):</b> |   |                     |                   |                     |                             |
| Gain on sale of assets                    | -   | -                   | -                 | -                   | 9,645                       |
| Interest earned                           | 6,614                                     | 20,742              | 665               | 28,021              | 2,405                       |
| Interest expenses                         | ( 14,794)                                 | ( 76,093)           | -                 | ( 90,887)           | ( 7,645)                    |
| Total Non-Operating Revenues (Expenses)   | <u>( 8,180)</u>                           | <u>( 55,351)</u>    | <u>665</u>        | <u>( 62,866)</u>    | <u>4,405</u>                |
| Net income (loss) before transfers in     | <u>3,876</u>                              | <u>75,374</u>       | <u>3,219</u>      | <u>82,469</u>       | <u>( 22,969)</u>            |
| <b>Operating Transfers In:</b>            |   |                     |                   |                     |                             |
| Transfers from other funds                | <u>890</u>                                | <u>199</u>          | <u>-</u>          | <u>1,089</u>        | <u>-</u>                    |
| Net income (loss)                         | <u>4,766</u>                              | <u>75,573</u>       | <u>3,219</u>      | <u>83,558</u>       | <u>( 22,969)</u>            |
| Net Assets at beginning of year           | 3,539,388                                 | 3,684,906           | 50,641            | 7,274,935           | 585,905                     |
| Prior period adjustment                   | <u>( 70,000)</u>                          | <u>70,000</u>       | <u>-</u>          | <u>-</u>            | <u>-</u>                    |
| Net Assets at beginning of year, restated | <u>3,469,388</u>                          | <u>3,754,906</u>    | <u>50,641</u>     | <u>7,274,935</u>    | <u>585,905</u>              |
| Net Assets at end of year                 | <u>\$ 3,474,154</u>                       | <u>\$ 3,830,479</u> | <u>\$ 53,860</u>  | <u>\$ 7,358,493</u> | <u>\$ 562,936</u>           |

The accompanying notes are an integral part of these financial statements.

**CITY OF DURAND, MICHIGAN**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

|   | Business Type Activities-Enterprise Funds |                   |                   |                   | Governmental<br>Activities  |
|---|---|-------------------|-------------------|-------------------|-----------------------------|
|   | Water                                     | Wastewater        | Refuse<br>Service | Total             | Internal<br>Service<br>Fund |
| <b>Cash Flows From Operating Activities:</b>  |   |                   |                   |                   |                             |
| Cash receipts from customers  | \$ 581,048                                | \$ 824,628        | \$ 195,752        | \$ 1,601,428      | \$ -                        |
| Cash receipts (payments) from interfund services  | -   | -                 | -                 | -                 | 386,400                     |
| Cash payments to suppliers  | ( 216,739)                                | ( 189,331)        | ( 155,209)        | ( 561,279)        | ( 132,700)                  |
| Cash payments to employees  | ( 253,945)                                | ( 322,480)        | ( 36,000)         | ( 612,425)        | ( 114,258)                  |
| Net Cash Provided (Used) by Operating Activities  | <u>110,364</u>                            | <u>312,817</u>    | <u>4,543</u>      | <u>427,724</u>    | <u>139,442</u>              |
| <b>Cash Flows From Noncapital Financing Activities:</b>   |   |                   |                   |                   |                             |
| Operating transfers from (to) other funds   | 890                                       | 199               | -                 | 1,089             | -                           |
| Net Cash Provided (Used) by Noncapital<br>Financing Activities  | <u>890</u>                                | <u>199</u>        | <u>-</u>          | <u>1,089</u>      | <u>-</u>                    |
| <b>Cash Flows From Capital and Related<br/>Financing Activities:</b>                                      |   |                   |                   |                   |                             |
| Due to/from other funds   | 57,022                                    | ( 5,422)          | -                 | 51,600            | -                           |
| Bond/Note payments  | ( 59,000)                                 | ( 116,000)        | -                 | ( 175,000)        | ( 20,450)                   |
| Interest Paid on long term debt   | ( 12,536)                                 | ( 65,569)         | -                 | ( 78,105)         | ( 7,645)                    |
| Proceeds from sale of fixed assets  | -   | -                 | -                 | -                 | 12,341                      |
| Acquisition and construction of capital assets  | ( 148,039)                                | ( 117,242)        | -                 | ( 265,281)        | ( 114,689)                  |
| Net Cash Used by Capital and Related<br>Financing Activities  | <u>( 162,553)</u>                         | <u>( 304,233)</u> | <u>-</u>          | <u>( 466,786)</u> | <u>( 130,443)</u>           |
| <b>Cash Flows From Investing Activities:</b>  |   |                   |                   |                   |                             |
| Sale of investments   | -   | ( 91,125)         | -                 | ( 91,125)         | -                           |
| Interest earned   | 6,614                                     | 20,742            | 665               | 28,021            | 2,405                       |
| Net Cash Provided by Investing Activities   | <u>6,614</u>                              | <u>( 70,383)</u>  | <u>665</u>        | <u>( 63,104)</u>  | <u>2,405</u>                |
| Net Increase (Decrease) in Cash and Cash<br>Equivalents for the year                                      | ( 44,685)                                 | ( 61,600)         | 5,208             | ( 101,077)        | 11,404                      |
| Cash and Cash Equivalents at Beginning of Year  | <u>134,559</u>                            | <u>549,649</u>    | <u>36,197</u>     | <u>720,405</u>    | <u>110,505</u>              |
| Cash and Cash Equivalents at End of Year  | <u>\$ 89,874</u>                          | <u>\$ 488,049</u> | <u>\$ 41,405</u>  | <u>\$ 619,328</u> | <u>\$ 121,909</u>           |
| <b>Reconciliation of Net Income (Loss) to:</b>  |   |                   |                   |                   |                             |
| Net Cash Provided (Used) by Operating Activities  |   |                   |                   |                   |                             |
| Operating income (loss) for the year  | \$ 12,056                                 | \$ 130,725        | \$ 2,554          | \$ 145,335        | \$( 27,374)                 |
| Adjustments to reconcile operating income (loss)<br>to net cash provided (used) by operating activities - |   |                   |                   |                   |                             |
| Depreciation  | 106,687                                   | 167,596           | -                 | 274,283           | 168,274                     |
| Change in assets and liabilities:   |   |                   |                   |                   |                             |
| Receivable  | 12,859                                    | 21,056            | 1,989             | 35,904            | -                           |
| Prepaid and deposits  | 1,105                                     | 76                | -                 | 1,181             | ( 1,330)                    |
| Inventory   | ( 4,137)                                  | -                 | -                 | ( 4,137)          | ( 708)                      |
| Accounts payable/accrued expenses   | ( 18,206)                                 | ( 6,636)          | -                 | ( 24,842)         | 580                         |
| Net Cash Provided (Used) By Operating Activities  | <u>\$ 110,364</u>                         | <u>\$ 312,817</u> | <u>\$ 4,543</u>   | <u>\$ 427,724</u> | <u>\$ 139,442</u>           |

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2008

|                           | Other Employee<br>Benefit<br>Trust Fund | Tax<br>Agency<br>Fund       |
|---------------------------|---|-----------------------------|
|                           | <u>                    </u>             | <u>                    </u> |
| <b>ASSETS:</b>            |   |                             |
| Cash and cash equivalents | \$ 9,391                                | \$ -                        |
| Accounts receivable       | 2,502                                   | -                           |
| Prepaid insurance         | <u>25,893</u>                           | <u>-</u>                    |
| Total Assets              | <u><u>\$ 37,786</u></u>                 | <u><u>\$ -</u></u>          |
| <br><b>LIABILITIES:</b>   |   |                             |
| Accrued liabilities       | \$ 2,836                                | \$ -                        |
| Accrued vacation and sick | <u>34,950</u>                           | <u>-</u>                    |
| Total Liabilities         | <u><u>\$ 37,786</u></u>                 | <u><u>\$ -</u></u>          |
| <br><b>NET ASSETS:</b>    | <u><u>\$ -</u></u>                      |                             |

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2008

|   |                    |
|---|--------------------|
| <b>Additions:</b>                               |                    |
| Contributions                                   | <u>\$ 531,050</u>  |
| <br><b>Deductions:</b>                          |                    |
| Life and disability                             | 13,217             |
| Retirement                                      | 109,053            |
| Hospitalization, eye and dental                 | <u>415,265</u>     |
| Total Deductions                                | <u>537,535</u>     |
| Net Change                                      | ( 6,485)           |
| Net assets held in trust for employees benefits |                    |
| Beginning of year                               | <u>6,485</u>       |
| End of year                                     | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity –**

The City of Durand, Michigan, was incorporated March 14, 1932, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

**DISCRETELY PRESENTED COMPONENT UNIT –**

**CITY OF DURAND DOWNTOWN DEVELOPMENT AUTHORITY (DDA)** – The Downtown Development Authority (DDA) was established in 1991. The DDA is organized under P.A. 197, of 1975. The purpose of the DDA is to revitalize and prevent deterioration of the central business district, to encourage historic preservation, authorize the acquisition and disposal of interests in real and personal property, seek out and attract new business interest, authorize the creation and implementation of redevelopment plans in the district, promote economic growth of the district and implement programs to eliminate the further decline of properties and their values in the district.

The City of Durand Downtown Development Authority (DDA) is reported discretely to emphasize that it is legally separate from the City. The DDA Board is comprised of up to thirteen members and one ex-officio member appointed by the Mayor with City Council's approval. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Durand City Council.

**RELATED ORGANIZATIONS** - The Durand Union Station, Inc. (a non-profit 501(c)(3) corporation) was organized for the development and operation of the Durand Union Station, Inc. Although the building is owned by the City, the financial statements of the Durand Union Station, Inc. are not included in the City's financial statements since the City Council does not appoint Board members and the City is not fiscally responsible for the operation.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**B. Government-wide and fund financial statements –**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation –**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.



**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied on July 1, and payable at that time, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** – is a special revenue fund used to account for Act 51 money and other related revenues restricted for major streets maintenance and improvements.

**Local Street Fund** – is a special revenue fund used to account for Act 51 money and other related revenues restricted for local streets maintenance and improvements.

**Main Street Project Fund** – is a capital project fund used to account for infrastructure and capital improvements partially financed by federal and state grants.

The City reports the following major proprietary funds:

**Water Supply System Fund** – is used to account for the treatment and distribution of water to residential and commercial users.

**Wastewater Fund** – is used to account for sanitary sewer services provided to the residential and commercial users.

**Refuse Services Fund** – is used to account for the operations and activities of garbage collection and recycling for residential customers within the City of Durand.

Additionally, the City reports the following fund types –

**Special Revenue Funds** – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Debt Service Funds** – are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

**Capital Projects Funds** – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

**Internal Service Fund** – is used to account for the costs of operating and maintaining the City’s equipment. Charges are made to other funds based on equipment used.

**Other Employee Trust Fund** – is used to accumulate resources for insurance, health benefits, and vested vacation and sick for qualified employees.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Tax Agency Trust Fund** - is used to account for collection and distribution of taxes. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for these business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the enterprise and internal services funds are charges to customers for sale and services. Operating expenses from enterprise and internal service funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity -**

**Deposits and Investments -**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Investments are certificates of deposit with a maturity of greater than ninety days from purchase date.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Receivables and Payables -**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**Property Tax Receivables -**

All delinquent real property taxes, utility charges and special assessments become liens against the related property and are reimbursed by Shiawassee County’s Delinquent Tax Revolving Fund. The County will, however, charge back to the City any amounts not collected at the end of three years.

**Allowances For Doubtful Accounts Receivable -**

The City utilizes the direct write-off method for all funds. Past experience has indicated the write-off of accounts receivable are immaterial and do not warrant the use of a contra account for this allowance.

**Inventories and Prepaid Items -**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds, except DPW supplies are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Property Tax Calendar -**

Taxes are levied on July 1 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for the County, intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

The City is permitted by state statute to levy taxes of 16.5304 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 15.6252 mills for general governmental purposes plus 2.85 mills for debt service and 0.9052 mills for streets for a total of 19.3804 mills.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Capital Assets -**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

|                                     | <u>Primary<br/>Government</u> | <u>Component<br/>Unit (DDA)</u> |
|-------------------------------------|-------------------------------|---------------------------------|
| Buildings and Building Improvements | 30-50                         | -                               |
| Machinery and equipment             | 3-30                          | -                               |
| Vehicles                            | 3-12                          | -                               |
| Streets/Street lights               | 20-30                         | 30                              |
| Water and sewer system              | 5-50                          | -                               |
| Drains                              | -                             | 50                              |
| Roads and sidewalks                 | 5-50                          | -                               |

**Compensated Absences -**

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Other Employee Benefit Trust Fund.

**Long-Term Obligations -**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity -**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates -**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information -**

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- 1) Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2) A public hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General Fund and total fund level for the Special Revenue Funds and Downtown Development Authority.
- 4) Any amendments to the budget must be approved by City Council.
- 5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue Funds and the Downtown Development Authority.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

- 6) Budget appropriations lapse at year-end.
- 7) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

The general fund budget is approved at the activity level and the total expenditure level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund, which was in excess of the amount appropriated as follows:

| <u>Fund Type/Function/Activity</u> | <u>Appropriations</u> | <u>Expended</u> | <u>Variance</u> |
|------------------------------------|-----------------------|-----------------|-----------------|
| General Fund –                     |                       |                 |                 |
| General Government –               |                       |                 |                 |
| Legislative                        | \$ 17,300             | \$ 19,468       | \$ 2,168        |
| City Manager                       | 102,500               | 103,948         | 1,448           |
| City Clerk                         | 183,100               | 184,796         | 1,696           |
| General Administration             | 252,520               | 269,985         | 17,465          |
| Planning                           | 6,500                 | 6,502           | 2               |
| Public Safety –                    |                       |                 |                 |
| Fire Department                    | 101,275               | 102,950         | 1,675           |
| Public Works –                     |                       |                 |                 |
| Director of Public Works           | 79,700                | 80,175          | 475             |
| Recreation and Culture –           |                       |                 |                 |
| Parks and Recreation               | 86,500                | 87,963          | 1,463           |
| Building Inspection Fund –         |                       |                 |                 |
| Public Safety                      | 49,300                | 49,305          | 5               |
| DDA –                              |                       |                 |                 |
| Public Works                       | 702,150               | 739,011         | 36,361          |

### NOTE 3 - DEPOSITS AND INVESTMENTS:

At year-end, the carrying amount of the City Reporting Entity's deposits and investments are as follows:

|  | <u>Primary<br/>Government</u> | <u>Component<br/>Unit</u> | <u>Fiduciary<br/>Unit</u> | <u>Reporting<br/>Entity</u> |
|--|-------------------------------|---------------------------|---------------------------|-----------------------------|
| Petty cash and cash on hand            | \$ 250                        | \$ 50                     | \$ -                      | \$ 300                      |
| Deposits with Financial Institutions - |                               |                           |                           |                             |
| Checking/Money Market                  | 145,502                       | 88,172                    | ( 5,056)                  | 228,618                     |
| Certificates of Deposit                | 421,659                       | -                         | -                         | 421,659                     |
| Total Deposits                         | <u>567,161</u>                | <u>88,172</u>             | <u>( 5,056)</u>           | <u>650,277</u>              |
| Investments -                          |                               |                           |                           |                             |
| Investment Trusts/Mutual Funds         | <u>1,233,222</u>              | <u>22,436</u>             | <u>14,447</u>             | <u>1,270,105</u>            |
| Grand Total                            | <u>\$ 1,800,633</u>           | <u>\$ 110,658</u>         | <u>\$ 9,391</u>           | <u>\$1,920,682</u>          |

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

#### Reconciliation To Combined Balance Sheet

|   | Primary<br>Government | Component<br>Unit | Fiduciary<br>Unit | Reporting<br>Entity |
|---|-----------------------|-------------------|-------------------|---------------------|
| Reported as Cash and Cash Equivalents - |                       |                   |                   |                     |
| Petty Cash and Cash On Hand             | \$ 250                | \$ 50             | \$ -              | \$ 300              |
| Checking/Money Market                   | 145,502               | 88,172            | ( 5,056)          | 228,618             |
| Investment Trusts/Mutual Funds          | <u>1,233,222</u>      | <u>22,436</u>     | <u>14,447</u>     | <u>1,270,105</u>    |
| Total Cash and Cash Equivalents         |                       |                   |                   |                     |
| Reported on Combined Balance Sheet      | <u>1,378,974</u>      | <u>110,658</u>    | <u>9,391</u>      | <u>1,499,023</u>    |
| Reported as Investments -               |                       |                   |                   |                     |
| Certificate of Deposit                  | <u>421,659</u>        | <u>-</u>          | <u>-</u>          | <u>421,659</u>      |
| Grand Total - Combined Balance Sheet    | <u>\$ 1,800,633</u>   | <u>\$ 110,658</u> | <u>\$ 9,391</u>   | <u>\$ 1,920,682</u> |

Safety of principal is the primary objective of the City's investment policy. Deposits and investments of the City should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain the objective, diversification is required in order that potential losses in individual securities do not exceed the income generated from the remainder of the portfolio.

#### Deposits -

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. (The FDIC insurance amount increased to \$250,000 effective October 3, 2008, for interest bearing accounts and the insurance amount for non-interest bearing accounts is unlimited, if the bank participates, effective October 14, 2008.) Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2008, the bank balance of the City's deposits were \$763,573 of which \$301,325 was FDIC insured with the balance \$462,248 exposed to credit risk because they are uninsured and uncollateralized.

**Custodial Credit Risk** - is the risk that in the event of a bank failure, the City's deposits or investments may not be returned. The City policy requires all financial institutions provide certain information to the City regarding the financial strength of the institution and that the Treasurer conduct an annual review.

Although the City complies with Michigan Compiled Laws, the City's investment policy requires that various information be obtained from each financial institution, that certain quarterly reporting of investments be made to the City Council, and that certificates of deposit be collateralized at 102% of market value of principle and accrued interest. We noted that the City was not in compliance in these areas.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

#### Investments -

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase; are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

At June 30, 2008, the City was invested in one mutual fund with SEI Investments in the amount of \$1,270,105. The fund invests exclusively in U.S. Treasury obligations and repurchase agreements fully collateralized by U.S. Treasury obligations. The fund has an AAA rating and an average weighted maturity of 38 days.

**Interest Rate Risk** - is the risk that the market value of securities in the City's portfolio will fall due to changes in market interest increases. The City policy attempts to minimize interest rate risk by avoiding the need to sell securities prior to maturity and investing operating funds primarily in short term securities, money markets mutual funds or similar public investment pools. The City's investment policy does not address interest rate risk.

**Credit Risk** - is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investments the City can purchase.

**Concentration of Credit Risk** - is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's investment policy requires that it diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

### NOTE 4 - RECEIVABLES:

Receivables in the governmental and business type activities are as follows:

|                                      | Governmental<br>Activities | Business Type<br>Activities |
|--------------------------------------|----------------------------|-----------------------------|
| Interest and accounts                | \$ 11,525                  | \$ 309,613                  |
| Special Assessments                  | 10,056                     | -                           |
| Intergovernmental –<br>Federal/State | 424,987                    | -                           |
|                                      | <u>\$ 446,568</u>          | <u>\$ 309,613</u>           |



# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 4 – RECEIVABLES – (cont'd):

Governmental funds in primary government report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

|  | <u>Unavailable</u> | <u>Unearned</u> |
|--|--------------------|-----------------|
| Governmental Activities –<br>Special Assessments | \$ 7,901           | \$ -            |
| Component Unit (DDA) –<br>Special Assessments    | \$ 17,576          | \$ -            |

### NOTE 5 - CAPITAL ASSETS:

#### Primary Government

Capital asset activity of the primary government for the year ended June 30, 2008 was as follows:

|   | <u>July 1, 2007<br/>Balance</u> | <u>Additions</u>  | <u>Deletions/<br/>Adjustments</u> | <u>June 30, 2008<br/>Balance</u> |
|---|---------------------------------|-------------------|-----------------------------------|----------------------------------|
| <b>Governmental activities:</b>             |                                 |                   |                                   |                                  |
| Capital assets, not being depreciated:      |                                 |                   |                                   |                                  |
| Land  | \$ 1,597,052                    | \$ -              | \$ 50,000                         | \$ 1,547,052                     |
| Construction in progress                    |                                 |                   |                                   |                                  |
| Park  | -                               | 12,330            | -                                 | 12,330                           |
| Streetscape                                 | 511,342                         | 71,337            | 582,679                           | -                                |
| Street Improvement                          | 347,448                         | 42,347            | 389,795                           | -                                |
| Total capital assets not being depreciated  | <u>2,455,842</u>                | <u>126,014</u>    | <u>1,022,474</u>                  | <u>1,559,382</u>                 |
| Capital assets being depreciated:           |                                 |                   |                                   |                                  |
| Buildings and improvements                  | 3,290,837                       | -                 | -                                 | 3,290,837                        |
| Infrastructure                              | 604,463                         | 972,474           | -                                 | 1,576,937                        |
| Machinery and equipment                     | 1,058,436                       | 66,245            | 25,295                            | 1,099,386                        |
| Vehicles                                    | 995,727                         | 48,444            | 67,742                            | 976,429                          |
| Total capital assets being depreciated      | <u>5,949,463</u>                | <u>1,087,163</u>  | <u>93,037</u>                     | <u>6,943,589</u>                 |
| Less accumulated depreciation for:          |                                 |                   |                                   |                                  |
| Buildings and improvements                  | 1,062,649                       | 75,180            | -                                 | 1,137,829                        |
| Infrastructure                              | 78,961                          | 54,535            | -                                 | 133,496                          |
| Machinery and equipment                     | 637,271                         | 93,913            | 22,599                            | 708,585                          |
| Vehicles                                    | 713,682                         | 83,204            | 67,742                            | 729,144                          |
| Total accumulated depreciation              | <u>2,492,563</u>                | <u>306,832</u>    | <u>90,341</u>                     | <u>2,709,054</u>                 |
| Total capital assets being depreciated, net | <u>3,456,900</u>                | <u>780,331</u>    | <u>2,696</u>                      | <u>4,234,535</u>                 |
| Governmental activities capital assets, net | <u>\$ 5,912,742</u>             | <u>\$ 906,345</u> | <u>\$ 1,025,170</u>               | <u>\$ 5,793,917</u>              |

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 5 - CAPITAL ASSETS - (cont'd):

|   | July 1, 2007<br><u>Balance</u> | <u>Additions</u>  | <u>Deletions/<br/>Adjustments</u> | June 30, 2008<br><u>Balance</u> |
|---|--------------------------------|-------------------|-----------------------------------|---------------------------------|
| <b>Business-type Activities:</b>            |                                |                   |                                   |                                 |
| Capital assets, not being depreciated:      |                                |                   |                                   |                                 |
| Land  | \$ 151,400                     | \$ -              | \$ -                              | \$ 151,400                      |
| Construction in progress                    |                                |                   |                                   |                                 |
| Water                                       | 433,188                        | 148,039           | 574,514                           | 6,713                           |
| Sanitary Sewer                              | <u>154,628</u>                 | <u>19,276</u>     | <u>154,059</u>                    | <u>19,845</u>                   |
| Total capital assets, not being depreciated | <u>739,216</u>                 | <u>167,315</u>    | <u>728,573</u>                    | <u>177,958</u>                  |
| Capital assets, being depreciated:          |                                |                   |                                   |                                 |
| Buildings and improvements                  | 3,784,515                      | -                 | -                                 | 3,784,515                       |
| Machinery and equipment                     | 68,154                         | -                 | -                                 | 68,154                          |
| Wastewater System                           | 4,323,472                      | 252,025           | 3,074                             | 4,572,423                       |
| Water System                                | <u>4,397,260</u>               | <u>574,514</u>    | <u>-</u>                          | <u>4,971,774</u>                |
| Total capital assets being depreciated      | <u>12,573,401</u>              | <u>826,539</u>    | <u>3,074</u>                      | <u>13,396,866</u>               |
| Less accumulated depreciation for:          |                                |                   |                                   |                                 |
| Building and improvements                   | 2,192,552                      | 74,916            | -                                 | 2,267,468                       |
| Machinery and equipment                     | 61,921                         | 2,322             | -                                 | 64,243                          |
| Waste Water System                          | 1,732,256                      | 98,445            | 3,074                             | 1,827,627                       |
| Water System                                | <u>1,552,275</u>               | <u>98,600</u>     | <u>-</u>                          | <u>1,650,875</u>                |
| Less accumulated depreciation               | <u>5,539,004</u>               | <u>274,283</u>    | <u>3,074</u>                      | <u>5,810,213</u>                |
| Total Capital assets being depreciated, net | <u>7,034,397</u>               | <u>552,256</u>    | <u>-</u>                          | <u>7,586,653</u>                |
| Business activities capital assets, net     | <u>\$ 7,773,613</u>            | <u>\$ 719,571</u> | <u>\$ 728,573</u>                 | <u>\$ 7,764,611</u>             |
| <b>Component Unit (DDA):</b>                |                                |                   |                                   |                                 |
| Capital assets not being depreciated:       |                                |                   |                                   |                                 |
| Land  | \$ -                           | \$ 627,036        | \$ -                              | \$ 627,036                      |
| Construction in progress                    | <u>57,000</u>                  | <u>-</u>          | <u>57,000</u>                     | <u>-</u>                        |
|   | <u>57,000</u>                  | <u>627,036</u>    | <u>57,000</u>                     | <u>627,036</u>                  |
| Capital assets, being depreciated:          |                                |                   |                                   |                                 |
| Streetscape                                 | -                              | 57,000            | -                                 | 57,000                          |
| Street lights                               | 204,000                        | -                 | -                                 | 204,000                         |
| Drain improvements                          | <u>48,000</u>                  | <u>-</u>          | <u>-</u>                          | <u>48,000</u>                   |
| Total capital assets being depreciated      | <u>252,000</u>                 | <u>57,000</u>     | <u>-</u>                          | <u>309,000</u>                  |
| Less accumulated depreciation               | <u>93,120</u>                  | <u>9,660</u>      | <u>-</u>                          | <u>102,780</u>                  |
| Total capital assets being depreciated, net | <u>158,880</u>                 | <u>47,340</u>     | <u>-</u>                          | <u>206,220</u>                  |
| Component unit capital assets, net          | <u>\$ 215,880</u>              | <u>\$ 674,376</u> | <u>\$ 57,000</u>                  | <u>\$ 833,256</u>               |

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 5 - CAPITAL ASSETS - (cont'd):**

Depreciation expense was charged to functions/programs of the primary government as follows:

|   |                   |
|---|-------------------|
| Governmental activities:                            |                   |
| General Government                                  | \$ 19,133         |
| Public Safety                                       | 10,041            |
| Public Works  | 55,844            |
| Recreation and Cultural                             | <u>53,540</u>     |
| Total depreciation expense-governmental activities  | <u>\$ 138,558</u> |
| Business-type activities:                           |                   |
| Water Fund  | \$ 106,687        |
| Sewer Fund  | <u>167,596</u>    |
| Total depreciation expense-business-type activities | <u>\$ 274,283</u> |
| Component unit activities:                          |                   |
| Downtown Development Authority                      | <u>\$ 9,660</u>   |

In addition there was depreciation of \$168,274 in the Equipment Revolving Fund.

**NOTE 6 - PAYABLES:**

Payables in the governmental and business-type activities are as follows:

|                                      | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> |
|--------------------------------------|------------------------------------|-------------------------------------|
| Accounts payable/accrued liabilities | \$ 42,542                          | \$ 18,816                           |
| Accrued wages and fringe benefits    | <u>3,227</u>                       | <u>1,371</u>                        |
|                                      | <u>\$ 45,769</u>                   | <u>\$ 20,187</u>                    |

**NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

The composition of interfund balances as of June 30, 2008:

**Due To/From Other Funds –**

| <u>Receivable Fund</u>   | <u>Payable Fund</u>      | <u>Amount</u>      |
|--------------------------|--------------------------|--------------------|
| Main Street Project Fund | Water Fund               | \$ 45,561 (5)      |
|                          | Waste Water Fund         | <u>6,039 (5)</u>   |
|                          |                          | 51,600             |
| Street Fund              | Main Street Project Fund | 26,391 (5)         |
| Waste Water Fund         | Water Fund               | 11,461 (1)         |
| General Fund             | Main Street Project Fund | <u>221,635 (6)</u> |
|                          |                          | <u>\$ 311,087</u>  |

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS - (cont'd):

#### Transfers From/To Other Funds -

| <u>Transfers In</u>            | <u>Transfers Out</u>     | <u>Amount</u>     |
|--------------------------------|--------------------------|-------------------|
| Local Street Fund              | Major Street Fund        | \$ 18,000 (4)     |
|                                | Street Fund              | <u>97,000 (4)</u> |
|                                |                          | <u>115,500</u>    |
| Street Fund                    | Main Street Project Fund | <u>26,391 (5)</u> |
| Fire Hall Debt Retirement Fund | General Fund             | <u>36,070 (2)</u> |
| Water Fund Main                | Street Project Fund      | 797 (5)           |
|                                | 2007 Capital Bond Fund   | <u>93 (3)</u>     |
|                                |                          | <u>890</u>        |
| Waste Water Fund               | Main Street Project Fund | 106 (5)           |
|                                | 2007 Capital Bond Fund   | <u>93 (3)</u>     |
|                                |                          | <u>199</u>        |
| Total Transfers                |                          | <u>\$ 179,050</u> |

- (1) Reappropriation of debt costs
- (2) Appropriation for debt service
- (3) To close out fund
- (4) Annual appropriation and support operations
- (5) Reimbursements for capital assets
- (6) Short-term cash advance

### NOTE 8 - LONG-TERM LIABILITIES:

#### PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2008:

|                                    | <u>Balance<br/>July 1,<br/>2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance<br/>June 30,<br/>2008</u> | <u>Due Within<br/>One Year</u> |
|------------------------------------|-------------------------------------|------------------|-------------------|--------------------------------------|--------------------------------|
| <u>Governmental Activities:</u>    |                                     |                  |                   |                                      |                                |
| Governmental Funds -               |                                     |                  |                   |                                      |                                |
| 2001 Refunding Bond                | \$ 310,000                          | \$ -             | \$ 30,000         | \$ 280,000                           | \$ 30,000                      |
| 2001 Refunding Bond                | 1,950,000                           | -                | 80,000            | 1,870,000                            | 90,000                         |
| 2002 Limited Tax Bond              | 165,000                             | -                | 30,000            | 135,000                              | 30,000                         |
| 2005 Installment Purchase Contract | <u>428,399</u>                      | <u>-</u>         | <u>26,585</u>     | <u>401,814</u>                       | <u>27,727</u>                  |
| Total Governmental Funds           | <u>2,853,399</u>                    | <u>-</u>         | <u>166,585</u>    | <u>2,686,814</u>                     | <u>177,727</u>                 |
| Internal Service Fund -            |                                     |                  |                   |                                      |                                |
| 2005 Installment Purchase          | 188,764                             | -                | 20,450            | 168,314                              | 21,278                         |
| Compensated Absences               | <u>3,883</u>                        | <u>-</u>         | <u>163</u>        | <u>3,720</u>                         | <u>-</u>                       |
| Total Internal Service Fund        | <u>192,647</u>                      | <u>-</u>         | <u>20,703</u>     | <u>172,034</u>                       | <u>21,278</u>                  |
| Total Governmental Activities      | <u>3,046,046</u>                    | <u>-</u>         | <u>187,288</u>    | <u>2,858,848</u>                     | <u>199,005</u>                 |

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

|                                  | Balance<br>July 1, 2007<br><u>restated</u> | <u>Additions</u> | <u>Reductions</u> | Balance<br>June 30,<br>2008 | Due Within<br>One Year |
|----------------------------------|--|------------------|-------------------|-----------------------------|------------------------|
| <u>Business-Type Activities:</u> |  |                  |                   |                             |                        |
| Enterprise Funds –               |  |                  |                   |                             |                        |
| Wastewater Fund –                |  |                  |                   |                             |                        |
| Wastewater Treatment             |  |                  |                   |                             |                        |
| Bonds, Series 1998               | \$ 40,000                                  | \$ -             | \$ 40,000         | \$ -                        | \$ -                   |
| 2004 Capital                     |  |                  |                   |                             |                        |
| Improvement Bond                 | 147,500                                    | -                | 27,500            | 120,000                     | 27,500                 |
| 2008 Capital                     |  |                  |                   |                             |                        |
| Improvement Bond                 | 105,000                                    | -                | 13,500            | 91,500                      | 13,500                 |
| Wastewater Treatment             |  |                  |                   |                             |                        |
| Bonds, Series 1999               | 1,035,000                                  | -                | 35,000            | 1,000,000                   | 100,000                |
| Compensated Absences             | 2,781                                      | 951              | -                 | 3,732                       | -                      |
| Water Fund –                     |  |                  |                   |                             |                        |
| 2004 Capital                     |  |                  |                   |                             |                        |
| Improvement Bond                 | 147,500                                    | -                | 27,500            | 120,000                     | 27,500                 |
| 2008 Capital                     |  |                  |                   |                             |                        |
| Improvement Bond                 | 245,000                                    | -                | 31,500            | 213,500                     | 31,500                 |
| Compensated Absences             | 4,089                                      | 506              | -                 | 4,595                       | -                      |
| Total Business-type Activities   | <u>1,726,870</u>                           | <u>1,457</u>     | <u>175,000</u>    | <u>1,553,327</u>            | <u>200,000</u>         |
| <u>Fiduciary Activities:</u>     |  |                  |                   |                             |                        |
| Agency Fund –                    |  |                  |                   |                             |                        |
| Employee Benefit Fund –          |  |                  |                   |                             |                        |
| Compensated Absences             | <u>36,400</u>                              | <u>-</u>         | <u>1,450</u>      | <u>34,950</u>               | <u>-</u>               |
| Total Entity Primary             |  |                  |                   |                             |                        |
| Government                       | <u>\$ 4,809,316</u>                        | <u>\$ 1,457</u>  | <u>\$ 363,738</u> | <u>\$4,447,125</u>          | <u>\$ 399,005</u>      |

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

#### General Obligation Bonds -

\$300,000 General Obligation Unlimited Tax Bonds,  
dated October 7, 2002, due in annual installments  
of \$30,000 to \$35,000 through May 1, 2012, with  
interest of 3.45% to 3.85% payable semi-annually

\$ 135,000

\$450,000, General Obligation Unlimited Tax  
Sewer Refunding Bonds, dated July 17, 2001  
due in annual installments of \$30,000 to \$50,000  
through May 1, 2015, with interest ranging from  
4.50% to 5% payable semi-annually

280,000

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

\$2,255,000, General Obligation Unlimited Tax Water Refunding Bonds, dated July 17, 2001, due in annual installments of \$90,000 to \$285,000 through May 1, 2019, with interest ranging from 4.2% to 5.0% payable semi-annually

\$ 1,870,000

\$ 2,285,000

**Water and Wastewater Treatment Bonds -**

\$1,300,000 Sewage Disposal System Revenue Bonds, dated September 23, 1999, due in annual installments of \$100,000 through May 1, 2018, with interest of 5.30% to 5.65% payable semi-annually

\$ 1,000,000

\$400,000, General Obligation Limited Tax Capital Improvement Bonds, dated October 12, 2004, due in annual installments of \$55,000 to \$65,000 through October 1, 2011, with interest of 2.50% to 3.30% payable semi-annually. The bonds are being repaid 50% from the Water Fund and 50% from the Sewer Fund

240,000

\$350,000 General Obligation Limited Tax Capital Improvement Bonds, dated June 6, 2008, due in annual installments of \$45,000 to \$55,000 through May 1, 2014 with interest of 3.75% to 4.00% payable semi-annually. The bonds are being repaid 70% from the Water Fund and 30% from the Sewer Fund

305,000

545,000

\$ 1,545,000

**Installment Loan Funds -**

On September 2, 2004, the City of Durand entered into an installment purchase agreement to finance a purchase of real estate in the amount of \$490,000. The note is payable over fifteen years with an interest rate of 4.25%

401,814

On April 15, 2005, the City of Durand entered into an installment purchase agreement to finance a purchase of a cleaner mounted truck in the in the amount of \$227,307. The note is payable over ten years with an interest rate of 4.05%

168,314

\$ 570,128

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

#### Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City of Durand, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water Fund, Wastewater Fund, Equipment Revolving Fund and Employee Benefits Fund in the amounts of \$4,595, \$3,732, \$3,720 and \$34,950, respectively at June 30, 2008.

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2008 (excluding compensated absences) are as follows:

| Year Ending<br>June 30, | Water and Wastewater Bonds |                   |                     |                   |                   |                   | Capital           |                  |
|-------------------------|----------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|------------------|
|                         | General Obligation Bonds   |                   | Revenue Bonds       |                   | Installment Loan  |                   | Improvement Bonds |                  |
|                         | Principal                  | Interest          | Principal           | Interest          | Principal         | Interest          | Principal         | Interest         |
| 2009                    | \$ 150,000                 | \$ 108,478        | \$ 100,000          | \$ 54,300         | \$ 49,005         | \$ 23,602         | \$ 100,000        | \$ 18,160        |
| 2010                    | 165,000                    | 102,313           | 100,000             | 49,000            | 51,058            | 21,550            | 110,000           | 14,930           |
| 2011                    | 180,000                    | 95,375            | 100,000             | 43,700            | 53,196            | 19,411            | 110,000           | 11,245           |
| 2012                    | 195,000                    | 87,703            | 100,000             | 38,400            | 55,425            | 17,183            | 115,000           | 7,343            |
| 2013                    | 175,000                    | 79,095            | 100,000             | 33,050            | 57,747            | 14,861            | 55,000            | 4,345            |
| 2014-2018               | 1,135,000                  | 250,705           | 500,000             | 83,500            | 239,370           | 39,382            | 55,000            | 2,200            |
| 2019-2022               | <u>285,000</u>             | <u>14,250</u>     | <u>-</u>            | <u>-</u>          | <u>64,327</u>     | <u>2,760</u>      | <u>-</u>          | <u>-</u>         |
|                         | <u>\$ 2,285,000</u>        | <u>\$ 737,919</u> | <u>\$ 1,000,000</u> | <u>\$ 301,950</u> | <u>\$ 570,128</u> | <u>\$ 138,749</u> | <u>\$ 545,000</u> | <u>\$ 58,223</u> |

#### COMPONENT UNIT -

The following is a summary of changes in long-term liabilities (including current portion) of the Component Unit for the year ended June 30, 2008:

|                                  | Balance<br>July 1,<br>2007 | Additions         | Reductions       | Balance<br>June 30,<br>2008 | Due Within<br>One Year |
|----------------------------------|----------------------------|-------------------|------------------|-----------------------------|------------------------|
| Downtown Development Authority – |                            |                   |                  |                             |                        |
| Tax Increment Development Bonds  | \$ 50,000                  | \$ -              | \$ 25,000        | \$ 25,000                   | \$ 25,000              |
| Tax Development Bonds            | <u>-</u>                   | <u>700,000</u>    | <u>-</u>         | <u>700,000</u>              | <u>-</u>               |
|                                  | <u>\$ 50,000</u>           | <u>\$ 700,000</u> | <u>\$ 25,000</u> | <u>\$ 725,000</u>           | <u>\$ 25,000</u>       |

\$225,000 Limited Tax General Obligation Tax  
Increment Development Bonds, dated December 7,  
1994, due in annual installment of \$25,000 through  
May 1, 2009, with interest of 5.00% payable semi-annually

\$ 25,000

\$700,000 Limited Tax General Obligation Tax Development  
Bonds, dated June 25, 2008, due in annual installments of  
\$15,000 to \$75,000, through November 1, 2027, with interest  
of 4.50% payable semi-annually

700,000  
\$ 725,000

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2008 are as follows:

| Year Ending<br>June 30, | Development Bonds |                   |
|-------------------------|-------------------|-------------------|
|                         | Principal         | Interest          |
| 2009                    | \$ 25,000         | \$ 28,025         |
| 2010                    | -                 | 31,500            |
| 2011                    | -                 | 31,500            |
| 2012                    | 15,000            | 31,163            |
| 2013                    | 20,000            | 30,375            |
| 2014-2018               | 120,000           | 137,251           |
| 2019-2023               | 220,000           | 99,676            |
| 2024-2028               | <u>325,000</u>    | <u>38,814</u>     |
|                         | <u>\$ 725,000</u> | <u>\$ 428,304</u> |

**NOTE 9 - RETIREMENT PLANS:**

**Plan Description -**

The City of Durand participates in the Municipal Employees Retirement System (MERS), a multiple employer statewide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2008 was 9.18% and 16.13% of payroll for general government and police/fire departments, respectively. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

**Annual Pension Costs -**

For fiscal 2008, the City's annual pension cost of \$109,053 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional projected salary increases ranging from 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.



**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 9 - RETIREMENT PLANS - (cont'd):**

**Three-Year Trend Information**

| Fiscal Year<br>Ending<br>June 30, | Annual Pension<br>Costs (APC) | Percentage<br>of APC<br>Contribution | Net Pension<br>Obligation |
|-----------------------------------|-------------------------------|--------------------------------------|---------------------------|
| 2006                              | \$ 85,128                     | 100 %                                | -                         |
| 2007                              | 108,466                       | 100                                  | -                         |
| 2008                              | 109,053                       | 100                                  | -                         |

**Schedule of Funding Progress**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) Entry Age<br>(b) | Unfunded<br>(Overfunded)<br>Accrued Liability<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>AAL<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a %<br>of Covered Payroll<br>((b-a)/c) |
|--------------------------------|--|---|--|---------------------------------|---------------------------|--|
| 2005                           | \$ 2,875,799                           | \$ 3,387,910  | \$ 512,111   | 85 %                            | \$ 938,634                | 55 %   |
| 2006                           | 3,076,108                              | 3,664,939   | 588,831  | 84                              | 957,355                   | 62   |
| 2007                           | 3,252,794                              | 3,860,825   | 608,031  | 84                              | 975,216                   | 62   |

**NOTE 10 - POST RETIREMENT BENEFITS:**

In addition to the pension benefits described in Note 9, the City provides Health Care coverage for retired employees with twenty-five (25) years of service and for employees with less than twenty-five (25) years of service, if age sixty (60) has been reached. Employees receive upon retirement and eligibility for a pension from the City, four percent (4%) per year of service, paid toward the above stated coverage. The expenditures for the post-retirement health care benefits are recognized on a pay-as-you-go basis. The expenditures for retirees' health insurance amount to \$58,730 for 2008.

**NOTE 11 - RISK MANAGEMENT:**

**General Liability**

The City participates in the Michigan Municipal League Liability and Property Pool liability insurance program. In general, the City carries \$10,000,000 of liability coverage and approximately \$18,929,500 of total property insurance Blanket Limit with a \$1,000 per claim deductible on property and computer equipment, and a \$1,000 per claim deductible on equipment and mechanical systems.

**Workers' Compensation**

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 12 - CONTINGENCIES:

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2008.

The City is involved in litigation with the Durand Vernon Ambulance, Inc., with both parties claiming breach of contract. The Durand Vernon Ambulance, Inc. alleges that the City of Durand owes approximately \$25,000 for the 2004/05 fiscal year. The City is vigorously defending this matter.

During 2008, City of Durand, Michigan changed its hospitalization medical insurance coverage and included a deductible provision payable by the City. The maximum deductible amount for the City is \$46,250 from January 1, 2008 through December 31, 2008. As of June 30, 2008, the City paid a total of \$41,364 with a remaining \$4,886 of additional possible liabilities.

### NOTE 13 - FUND EQUITY - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

#### Reserved Fund Balance -

Fund Balance has been reserved in the following funds to indicate a portion of fund balance is not available but reserved for a specific purpose at June 30, 2008.

#### Primary Government -

##### General Fund -

|                      |               |
|----------------------|---------------|
| Prepaid and Deposits | \$ 33,521     |
| Park Donations       | 24,217        |
| Drug Forfeiture      | 271           |
| Park Development     | 3,397         |
| Other                | <u>445</u>    |
|                      | <u>61,851</u> |

##### Major Street Fund -

|           |              |
|-----------|--------------|
| Inventory | <u>2,305</u> |
|-----------|--------------|

##### Local Street Fund -

|           |              |
|-----------|--------------|
| Inventory | <u>3,037</u> |
|-----------|--------------|

##### Other Governmental Funds -

##### Debt Service -

|                                      |        |
|--------------------------------------|--------|
| Fire Hall                            | 3,116  |
| 2001 Wastewater Treatment Plant Fund | 30,533 |
| 2001 Water Bond                      | 79,446 |

##### Capital Project -

|                    |              |
|--------------------|--------------|
| Industrial Complex | 51           |
| Depot Restoration  | <u>2,146</u> |

|                                |                |
|--------------------------------|----------------|
| Total Other Governmental Funds | <u>115,292</u> |
|--------------------------------|----------------|

|                          |                   |
|--------------------------|-------------------|
| Total Primary Government | <u>\$ 182,485</u> |
|--------------------------|-------------------|

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 13 - FUND EQUITY - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS - (cont'd):**

**Component Unit –**

Downtown Development Authority –  
Friday Night Live

\$ 12,236

**Designated Fund Balance –**

The City Council has designated \$100,000 of the General Fund Fund Balance for establishing a post retirement benefit fund.

**Reserved Retained Earnings –**

Retained Earnings has been reserved in the Water and Wastewater Funds at June 30, 2008 in the amount of \$181,622 for Debt Service payments. In addition, the Water Fund retained earnings has been reserved in amount of \$15,000 for Well head protection.

**NOTE 14 - PRIOR PERIOD ADJUSTMENTS:**

Prior period adjustments were made to adjust the portion of the 2007 Capital Improvement Bond owed by the Water and Wastewater Funds. The net change of each fund was \$70,000.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF DURAND, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2008

|                                      | Budget            |                   |                   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--------------------------------------|-------------------|-------------------|-------------------|---|
|                                      | Original          | Final             | Actual            |   |
| <b>Revenues:</b>                     |                   |                   |                   |   |
| Taxes                                | \$ 1,215,900      | \$ 1,196,900      | \$ 1,202,156      | \$ 5,256  |
| Licenses and permits                 | 29,000            | 29,000            | 32,222            | 3,222   |
| Intergovernmental -                  |                   |                   |                   |   |
| Federal/State                        | 468,300           | 479,300           | 520,551           | 41,251  |
| Charges for services                 | 15,500            | 15,500            | 18,809            | 3,309   |
| Fines and forfeits                   | 14,000            | 14,000            | 10,249            | ( 3,751)  |
| Interest and rents                   | 34,000            | 34,000            | 43,137            | 9,137   |
| Other                                | -                 | 21,195            | 120,701           | 99,506  |
|                                      | <u>1,776,700</u>  | <u>1,789,895</u>  | <u>1,947,825</u>  | <u>157,930</u>  |
| <b>Expenditures:</b>                 |                   |                   |                   |   |
| General Government -                 |                   |                   |                   |   |
| Legislative                          | 14,600            | 17,300            | 19,468            | ( 2,168)  |
| City Manager                         | 103,400           | 102,500           | 103,948           | ( 1,448)  |
| Elections                            | 8,600             | 6,600             | 5,595             | 1,005   |
| Assessor                             | 21,500            | 22,750            | 22,628            | 122   |
| City Clerk                           | 179,600           | 183,100           | 184,796           | ( 1,696)  |
| Treasurer                            | 132,550           | 123,050           | 117,273           | 5,777   |
| General administration               | 233,450           | 252,520           | 269,985           | ( 17,465)   |
| Planning                             | 9,500             | 6,500             | 6,502             | ( 2)  |
|                                      | <u>703,200</u>    | <u>714,320</u>    | <u>730,195</u>    | <u>( 15,875)</u>  |
| Less: Reimbursement from other funds | <u>( 319,000)</u> | <u>( 343,000)</u> | <u>( 343,000)</u> | <u>-</u>  |
| Total General Government             | <u>384,200</u>    | <u>371,320</u>    | <u>387,195</u>    | <u>( 15,875)</u>  |
| Public Safety -                      |                   |                   |                   |   |
| Police department                    | 690,500           | 675,950           | 659,525           | 16,425  |
| Fire department                      | 97,100            | 101,275           | 102,950           | ( 1,675)  |
|                                      | <u>787,600</u>    | <u>777,225</u>    | <u>762,475</u>    | <u>14,750</u>   |
| Public Works -                       |                   |                   |                   |   |
| Director of public works             | 78,850            | 79,700            | 80,175            | ( 475)  |
| Department of public works           | 409,500           | 394,200           | 379,663           | 14,537  |
|                                      | <u>488,350</u>    | <u>473,900</u>    | <u>459,838</u>    | <u>14,062</u>   |
| Recreational and Cultural-           |                   |                   |                   |   |
| Parks and recreation                 | 85,000            | 86,500            | 87,963            | ( 1,463)  |
| Debt Service                         |                   |                   |                   |   |
| Principal                            | 26,600            | 26,600            | 26,585            | 15  |
| Interest                             | 17,950            | 17,950            | 17,927            | 23  |
|                                      | <u>44,550</u>     | <u>44,550</u>     | <u>44,512</u>     | <u>38</u>   |
| Total Expenditures                   | <u>1,789,700</u>  | <u>1,753,495</u>  | <u>1,741,983</u>  | <u>11,512</u>   |
| Revenues over (under) expenditures   | <u>( 13,000)</u>  | <u>36,400</u>     | <u>205,842</u>    | <u>169,442</u>  |

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

|  | Budget                   |                          |                          | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------------|--------------------------|--------------------------|---|
|  | <u>Original</u>          | <u>Final</u>             | <u>Actual</u>            | <u></u>   |
| <b>Other Financing Sources (Uses):</b> |                          |                          |                          |   |
| Transfer Out-                          |                          |                          |                          |   |
| Fire Hall Debt                         | <u>\$ ( 36,400)</u>      | <u>\$ ( 36,400)</u>      | <u>\$ ( 36,070)</u>      | <u>\$ 330</u>   |
| Net change in Fund Balance             | ( 49,400)                | -                        | 169,772                  | 169,772   |
| Fund Balance at beginning of year      | <u>472,615</u>           | <u>472,615</u>           | <u>472,615</u>           | <u>-</u>  |
| Fund Balance at end of year            | <u><u>\$ 423,215</u></u> | <u><u>\$ 472,615</u></u> | <u><u>\$ 642,387</u></u> | <u><u>\$ 169,772</u></u>                                |

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
MAJOR STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

|  | Budget                  |                         | Actual                   | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------------|-------------------------|--------------------------|---|
|  | Original                | Final                   |                          |   |
| <b>Revenues:</b>                       |                         |                         |                          |   |
| Intergovernmental -                    |                         |                         |                          |   |
| State                                  | \$ 174,700              | \$ 174,700              | \$ 168,067               | \$( 6,633)  |
| Interest                               | 2,000                   | 2,000                   | 2,372                    | 372   |
|  | <u>176,700</u>          | <u>176,700</u>          | <u>170,439</u>           | <u>( 6,261)</u>   |
| <b>Expenditures:</b>                   |                         |                         |                          |   |
| Public Works -                         |                         |                         |                          |   |
| Administration                         | 6,000                   | 6,000                   | 6,000                    | -   |
| Maintenance                            | 152,900                 | 100,900                 | 65,489                   | 35,411  |
| Winter Maintenance                     | 29,800                  | 51,800                  | 49,484                   | 2,316   |
|  | <u>188,700</u>          | <u>158,700</u>          | <u>120,973</u>           | <u>37,727</u>   |
| Revenues over (under) expenditures     | <u>( 12,000)</u>        | <u>18,000</u>           | <u>49,466</u>            | <u>31,466</u>   |
| <b>Other Financing Sources (Uses):</b> |                         |                         |                          |   |
| Transfers in -                         |                         |                         |                          |   |
| Street Fund                            | 30,000                  | -                       | -                        | -   |
| Transfers out -                        |                         |                         |                          |   |
| Local Street Fund                      | <u>( 18,000)</u>        | <u>( 18,000)</u>        | <u>( 18,000)</u>         | <u>-</u>  |
| Total other financing sources (uses)   | <u>12,000</u>           | <u>( 18,000)</u>        | <u>( 18,000)</u>         | <u>-</u>  |
| Net change in Fund Balance             | -                       | -                       | 31,466                   | 31,466  |
| Fund Balance at beginning of year      | <u>96,235</u>           | <u>96,235</u>           | <u>96,235</u>            | <u>-</u>  |
| Fund Balance at end of year            | <u><u>\$ 96,235</u></u> | <u><u>\$ 96,235</u></u> | <u><u>\$ 127,701</u></u> | <u><u>\$ 31,466</u></u>                                 |

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
LOCAL STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

|                                   | <u>Budget</u>           |                         | <u>Actual</u>           | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|-----------------------------------|-------------------------|-------------------------|-------------------------|---|
|                                   | <u>Original</u>         | <u>Final</u>            |                         |   |
| <b>Revenues:</b>                  |                         |                         |                         |   |
| Intergovernmental -               |                         |                         |                         |   |
| State                             | \$ 68,800               | \$ 79,800               | \$ 76,134               | \$( 3,666)  |
| Interest                          | 1,000                   | 1,000                   | 466                     | ( 534)  |
|                                   | <u>69,800</u>           | <u>80,800</u>           | <u>76,600</u>           | <u>( 4,200)</u>   |
| <b>Expenditures:</b>              |                         |                         |                         |   |
| Public Works -                    |                         |                         |                         |   |
| Administration                    | 6,000                   | 6,000                   | 6,000                   | -   |
| Maintenance                       | 125,300                 | 185,400                 | 179,727                 | 5,673   |
| Winter Maintenance                | 21,000                  | 38,100                  | 37,468                  | 632   |
|                                   | <u>152,300</u>          | <u>229,500</u>          | <u>223,195</u>          | <u>6,305</u>  |
| Revenues under expenditures       | <u>( 82,500)</u>        | <u>( 148,700)</u>       | <u>( 146,595)</u>       | <u>2,105</u>  |
| <b>Other Financing Sources:</b>   |                         |                         |                         |   |
| Transfers in -                    |                         |                         |                         |   |
| Major Street Fund                 | 18,000                  | 18,000                  | 18,000                  | -   |
| Street Fund                       | 64,500                  | 97,500                  | 97,500                  | -   |
|                                   | <u>82,500</u>           | <u>115,500</u>          | <u>115,500</u>          | <u>-</u>  |
| Net change in Fund Balance        | -                       | ( 33,200)               | ( 31,095)               | 2,105   |
| Fund Balance at beginning of year | <u>94,711</u>           | <u>94,711</u>           | <u>94,711</u>           | <u>-</u>  |
| Fund Balance at end of year       | <u><u>\$ 94,711</u></u> | <u><u>\$ 61,511</u></u> | <u><u>\$ 63,616</u></u> | <u><u>\$ 2,105</u></u>                                  |



## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF DURAND, MICHIGAN**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008**

|                                     | Special Revenue Funds |                      |                        |                  |
|-------------------------------------|-----------------------|----------------------|------------------------|------------------|
|                                     | Street                | Sidewalks<br>& Curbs | Building<br>Inspection | Ambulance        |
| <b>ASSETS</b>                       |                       |                      |                        |                  |
| Cash and cash equivalents           | \$ 35,304             | \$ 7,574             | \$ 52,601              | \$ 95,000        |
| Investment                          | 113,679               | -                    | -                      | -                |
| Receivables -                       |                       |                      |                        |                  |
| Special Assessments Receivable      | 2,155                 | 7,901                | -                      | -                |
| Due from other funds                | 26,391                | -                    | -                      | -                |
|                                     |                       |                      |                        |                  |
| Total Assets                        | <u>\$ 177,529</u>     | <u>\$ 15,475</u>     | <u>\$ 52,601</u>       | <u>\$ 95,000</u> |
| <b>LIABILITIES AND FUND BALANCE</b> |                       |                      |                        |                  |
| <b>Liabilities:</b>                 |                       |                      |                        |                  |
| Accounts payable                    | \$ -                  | \$ -                 | \$ 550                 | \$ -             |
| Deferred revenue                    | -                     | 7,901                | -                      | -                |
| Total Liabilities                   | <u>-</u>              | <u>7,901</u>         | <u>550</u>             | <u>-</u>         |
| <b>Fund Balance:</b>                |                       |                      |                        |                  |
| Reserved -                          |                       |                      |                        |                  |
| Capital projects                    | -                     | -                    | -                      | -                |
| Debt service                        | -                     | -                    | -                      | -                |
| Unreserved -                        |                       |                      |                        |                  |
| Designated                          |                       |                      |                        |                  |
| Undesignated                        | 177,529               | 7,574                | 52,051                 | 95,000           |
| Total Fund Balance                  | <u>177,529</u>        | <u>7,574</u>         | <u>52,051</u>          | <u>95,000</u>    |
|                                     |                       |                      |                        |                  |
| Total Liabilities and Fund Balance  | <u>\$ 177,529</u>     | <u>\$ 15,475</u>     | <u>\$ 52,601</u>       | <u>\$ 95,000</u> |

| Debt Service Funds |                                       |                    |                         | Capital Project Funds |                      | Total             |
|--------------------|---------------------------------------|--------------------|-------------------------|-----------------------|----------------------|-------------------|
| Fire<br>Hall       | 2001<br>Wastewater<br>Treatment Plant | 2001<br>Water Bond | 2007<br>Capital<br>Bond | Industrial<br>Complex | Depot<br>Restoration |                   |
| \$ 3,116           | \$ 30,533                             | \$ 36,441          | \$ -                    | \$ 51                 | \$ 2,146             | \$ 262,766        |
| -                  | -                                     | 43,005             | -                       | -                     | -                    | 156,684           |
| -                  | -                                     | -                  | -                       | -                     | -                    | 10,056            |
| -                  | -                                     | -                  | -                       | -                     | -                    | 26,391            |
| <u>\$ 3,116</u>    | <u>\$ 30,533</u>                      | <u>\$ 79,446</u>   | <u>\$ -</u>             | <u>\$ 51</u>          | <u>\$ 2,146</u>      | <u>\$ 455,897</u> |
|                    |                                       |                    |                         |                       |                      |                   |
| \$ -               | \$ -                                  | \$ -               | \$ -                    | \$ -                  | \$ -                 | \$ 550            |
| -                  | -                                     | -                  | -                       | -                     | -                    | 7,901             |
| -                  | -                                     | -                  | -                       | -                     | -                    | 8,451             |
|                    |                                       |                    |                         |                       |                      |                   |
| -                  | -                                     | -                  | -                       | 51                    | 2,146                | 2,197             |
| 3,116              | 30,533                                | 79,446             | -                       | -                     | -                    | 113,095           |
| -                  | -                                     | -                  | -                       | -                     | -                    | 332,154           |
| <u>3,116</u>       | <u>30,533</u>                         | <u>79,446</u>      | <u>-</u>                | <u>51</u>             | <u>2,146</u>         | <u>447,446</u>    |
| <u>\$ 3,116</u>    | <u>\$ 30,533</u>                      | <u>\$ 79,446</u>   | <u>\$ -</u>             | <u>\$ 51</u>          | <u>\$ 2,146</u>      | <u>\$ 455,897</u> |

# CITY OF DURAND, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2008

|  | Special Revenue Funds |                      |                        |                  |
|--|-----------------------|----------------------|------------------------|------------------|
|  | Street                | Sidewalks<br>& Curbs | Building<br>Inspection | Ambulance        |
| <b>Revenues:</b>                       |                       |                      |                        |                  |
| Taxes                                  | \$ 66,616             | \$ -                 | \$ -                   | \$ -             |
| Licenses and permits                   | -                     | -                    | 101,318                | -                |
| Interest                               | 6,901                 | 156                  | -                      | -                |
| Special assessment                     | 2,154                 | 14,696               | -                      | -                |
| Other                                  | -                     | -                    | -                      | -                |
| Total Revenues                         | <u>75,671</u>         | <u>14,852</u>        | <u>101,318</u>         | <u>-</u>         |
| <b>Expenditures:</b>                   |                       |                      |                        |                  |
| Current -                              |                       |                      |                        |                  |
| Public Safety                          | -                     | -                    | 49,305                 | -                |
| Public Works                           | -                     | 27,476               | -                      | -                |
| Debt Service -                         |                       |                      |                        |                  |
| Principal retirement                   | -                     | -                    | -                      | -                |
| Interest and fiscal charges            | -                     | -                    | -                      | -                |
| Total Expenditures                     | <u>-</u>              | <u>27,476</u>        | <u>49,305</u>          | <u>-</u>         |
| Revenues over (under) expenditures     | <u>75,671</u>         | <u>( 12,624)</u>     | <u>52,013</u>          | <u>-</u>         |
| <b>Other Financing Sources (Uses):</b> |                       |                      |                        |                  |
| Transfers In                           | 26,391                | -                    | -                      | -                |
| Transfers Out                          | ( 97,500)             | -                    | -                      | -                |
| Total Other Financing Sources (Uses)   | <u>( 71,109)</u>      | <u>-</u>             | <u>-</u>               | <u>-</u>         |
| Net Change in Fund Balance             | 4,562                 | ( 12,624)            | 52,013                 | -                |
| Fund Balances at beginning of year     | <u>172,967</u>        | <u>20,198</u>        | <u>38</u>              | <u>95,000</u>    |
| Fund Balances at end of year           | <u>\$ 177,529</u>     | <u>\$ 7,574</u>      | <u>\$ 52,051</u>       | <u>\$ 95,000</u> |

| Debt Service Funds |                                       |                    |                         | Capital Project Funds |                      |            |
|--------------------|---------------------------------------|--------------------|-------------------------|-----------------------|----------------------|------------|
| Fire<br>Hall       | 2001<br>Wastewater<br>Treatment Plant | 2001<br>Water Bond | 2007<br>Capital<br>Bond | Industrial<br>Complex | Depot<br>Restoration | Total      |
| \$ -               | \$ 40,465                             | \$ 169,259         | \$ -                    | \$ -                  | \$ -                 | \$ 276,340 |
| -                  | -                                     | -                  | -                       | -                     | -                    | 101,318    |
| -                  | 1,426                                 | 4,593              | -                       | -                     | -                    | 13,076     |
| -                  | -                                     | -                  | -                       | -                     | -                    | 16,850     |
| -                  | -                                     | -                  | -                       | -                     | -                    | -          |
| -                  | 41,891                                | 173,852            | -                       | -                     | -                    | 407,584    |
| -                  | -                                     | -                  | -                       | -                     | -                    | 49,305     |
| -                  | -                                     | -                  | -                       | -                     | -                    | 27,476     |
| 30,000             | 30,000                                | 80,000             | -                       | -                     | -                    | 140,000    |
| 6,207              | 14,850                                | 93,755             | -                       | -                     | -                    | 114,812    |
| 36,207             | 44,850                                | 173,755            | -                       | -                     | -                    | 331,593    |
| ( 36,207)          | ( 2,959)                              | 97                 | -                       | -                     | -                    | 75,991     |
| 36,070             | -                                     | -                  | -                       | -                     | -                    | 62,461     |
| -                  | -                                     | -                  | ( 186)                  | -                     | -                    | ( 97,686)  |
| 36,070             | -                                     | -                  | ( 186)                  | -                     | -                    | ( 35,225)  |
| ( 137)             | ( 2,959)                              | 97                 | ( 186)                  | -                     | -                    | 40,766     |
| 3,253              | 33,492                                | 79,349             | 186                     | 51                    | 2,146                | 406,680    |
| \$ 3,116           | \$ 30,533                             | \$ 79,446          | \$ -                    | \$ 51                 | \$ 2,146             | \$ 447,446 |

# CITY OF DURAND, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2008

|                                   | Budget            |                   |                   | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|-----------------------------------|-------------------|-------------------|-------------------|---|
|                                   | Original          | Final             | Actual            |   |
| STREET FUND                       |                   |                   |                   |   |
| Revenues:                         |                   |                   |                   |   |
| Taxes                             | \$ 67,500         | \$ 67,500         | \$ 66,616         | \$ ( 884)   |
| Special assessments               | 2,100             | 2,100             | 2,154             | 54  |
| Interest                          | 6,000             | 6,000             | 6,901             | 901   |
|                                   | <u>75,600</u>     | <u>75,600</u>     | <u>75,671</u>     | <u>71</u>   |
| Other Financing Sources (Uses):   |                   |                   |                   |   |
| Transfers in -                    |                   |                   |                   |   |
| Main Street Fund                  | -                 | -                 | 26,391            | 26,391  |
| Transfers out -                   |                   |                   |                   |   |
| Major Street Fund                 | ( 30,000)         | -                 | -                 | -   |
| Local Street Fund                 | ( 64,500)         | ( 97,500)         | ( 97,500)         | -   |
|                                   | <u>( 94,500)</u>  | <u>( 97,500)</u>  | <u>( 71,109)</u>  | <u>26,391</u>   |
| Net change in Fund Balance        | ( 18,900)         | ( 21,900)         | 4,562             | 26,462  |
| Fund Balance at beginning of year | <u>172,967</u>    | <u>172,967</u>    | <u>172,967</u>    | <u>-</u>  |
| Fund Balance at end of year       | <u>\$ 154,067</u> | <u>\$ 151,067</u> | <u>\$ 177,529</u> | <u>\$ 26,462</u>  |
| SIDEWALKS & CURBS FUND            |                   |                   |                   |   |
| Revenues:                         |                   |                   |                   |   |
| Interest                          | \$ 400            | \$ 400            | \$ 156            | \$ ( 244)   |
| Special Assessments               | 3,600             | 15,600            | 14,696            | ( 904)  |
|                                   | <u>4,000</u>      | <u>16,000</u>     | <u>14,852</u>     | <u>( 1,148)</u>   |
| Expenditures:                     |                   |                   |                   |   |
| Public Works -                    |                   |                   |                   |   |
| Contracted Services               | <u>22,000</u>     | <u>28,000</u>     | <u>27,476</u>     | <u>524</u>  |
| Net change in Fund Balance        | ( 18,000)         | ( 12,000)         | ( 12,624)         | ( 624)  |
| Fund Balance at beginning of year | <u>20,198</u>     | <u>20,198</u>     | <u>20,198</u>     | <u>-</u>  |
| Fund Balance at end of year       | <u>\$ 2,198</u>   | <u>\$ 8,198</u>   | <u>\$ 7,574</u>   | <u>\$ ( 624)</u>  |

Continued

# CITY OF DURAND, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2008

|                                   | Budget    |            |            | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|-----------------------------------|-----------|------------|------------|---|
|                                   | Original  | Final      | Actual     |   |
| BUILDING INSPECTION FUND          |           |            |            |   |
| Revenues:                         |           |            |            |   |
| Licenses and permits -            |           |            |            |   |
| Permits                           | \$ 23,300 | \$ 101,300 | \$ 101,318 | \$ 18   |
| Expenditures:                     |           |            |            |   |
| Public Safety -                   |           |            |            |   |
| Administration                    | 6,000     | 30,000     | 30,000     | -   |
| Building inspection               | 17,300    | 19,300     | 19,305     | ( 5)  |
|                                   | 23,300    | 49,300     | 49,305     | ( 5)  |
| Revenues over expenditures        | -         | 52,000     | 52,013     | 13  |
| Other Financing Uses :            |           |            |            |   |
| Transfers out -                   |           |            |            |   |
| General Fund                      | -         | ( 52,000)  | -          | 52,000  |
| Net change in Fund Balance        | -         | -          | 52,013     | 52,013  |
| Fund Balance at beginning of year | 38        | 38         | 38         | -   |
| Fund Balance at end of year       | \$ 38     | \$ 38      | \$ 52,051  | \$ 52,013   |

### AMBULANCE FUND

|                                   |                  |                  |                  |             |
|-----------------------------------|------------------|------------------|------------------|-------------|
| <b>Revenues:</b>                  |                  |                  |                  |             |
| Taxes                             | \$ 47,500        | \$ -             | \$ -             | \$ -        |
| <b>Expenditures:</b>              |                  |                  |                  |             |
| Public Safety -                   |                  |                  |                  |             |
| Contracted services               | <u>47,500</u>    | <u>-</u>         | <u>-</u>         | <u>-</u>    |
| Net change in Fund Balance        | -                | -                | -                | -           |
| Fund Balance at beginning of year | <u>95,000</u>    | <u>95,000</u>    | <u>95,000</u>    | <u>-</u>    |
| Fund Balance at end of year       | <u>\$ 95,000</u> | <u>\$ 95,000</u> | <u>\$ 95,000</u> | <u>\$ -</u> |

Concluded

# CITY OF DURAND, MICHIGAN

## AGENCY FUNDS STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED JUNE 30, 2008

|                                 | Balance<br>July 1,<br>2007 | Additions         | Reductions        | Balance<br>June 30,<br>2008 |
|---------------------------------|----------------------------|-------------------|-------------------|-----------------------------|
|                                 | <u>          </u>          | <u>          </u> | <u>          </u> | <u>          </u>           |
| <b>TAX COLLECTION FUND</b>      |                            |                   |                   |                             |
| <b>Assets:</b>                  |                            |                   |                   |                             |
| Cash                            | \$ -                       | \$ 709,496        | \$ 709,496        | \$ -                        |
|                                 | <u>          </u>          | <u>          </u> | <u>          </u> | <u>          </u>           |
| <b>Liabilities:</b>             |                            |                   |                   |                             |
| Due to other governmental units | \$ -                       | \$ 556,509        | \$ 556,509        | \$ -                        |
| Due to other funds              | -                          | 152,528           | 152,528           | -                           |
| Undistributed taxes             | <u>-</u>                   | <u>459</u>        | <u>459</u>        | <u>-</u>                    |
|                                 | <u>\$ -</u>                | <u>\$ 709,496</u> | <u>\$ 709,496</u> | <u>\$ -</u>                 |



## **COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY**

# CITY OF DURAND, MICHIGAN

## BALANCE SHEET/STATEMENT OF NET ASSETS DOWNTOWN DEVELOPMENT AUTHORITY JUNE 30, 2008

| ASSETS  | Governmental<br>Activities | GASB 34<br>Adjustments | Statement of<br>Net Assets |
|---|----------------------------|------------------------|----------------------------|
| Cash and cash equivalents                                   | \$ 110,658                 | \$ -                   | \$ 110,658                 |
| Special Assessments Receivable                              | 17,576                     | -                      | 17,576                     |
| Capital Assets (net of accumulated depreciation)            |                            |                        |                            |
| Assets not being depreciated                                | -                          | 627,036                | 627,036                    |
| Assets being depreciated                                    | -                          | 206,220                | 206,220                    |
|   | <hr/>                      | <hr/>                  | <hr/>                      |
| Total Assets  | \$ 128,234                 | \$ 833,256             | \$ 961,490                 |
|   | <hr/> <hr/>                | <hr/> <hr/>            | <hr/> <hr/>                |
| <br><b>LIABILITIES AND FUND BALANCE</b>                     |                            |                        |                            |
| <b>Liabilities:</b>   |                            |                        |                            |
| Accounts payable  | \$ 568                     | \$ -                   | \$ 568                     |
| Accrued interest  | -                          | 416                    | 416                        |
| Deferred revenue  | 17,576                     | ( 17,576)              | -                          |
| Due to other governmental units -<br>State                  | 16,431                     | -                      | 16,431                     |
| Non-current liabilities                                     |                            |                        |                            |
| Due within one year   | -                          | 25,000                 | 25,000                     |
| Due in more than one year                                   | -                          | 700,000                | 700,000                    |
| Total Liabilities   | <hr/> 34,575               | <hr/> 707,840          | <hr/> 742,415              |
|   | <hr/>                      | <hr/>                  | <hr/>                      |
| <b>Fund Balance:</b>  |                            |                        |                            |
| Reserved/Restricted -<br>Friday night live                  | 12,236                     | ( 12,236)              | -                          |
| Unreserved/Unrestricted                                     | <hr/> 81,423               | <hr/> ( 81,423)        | -                          |
|   | <hr/> 93,659               | <hr/> ( 93,659)        |                            |
|   | <hr/>                      | <hr/>                  |                            |
| Total Liabilities and Fund Balance                          | \$ 128,234                 |                        |                            |
|   | <hr/> <hr/>                |                        |                            |
| <b>Net Assets:</b>  |                            |                        |                            |
| Investment in capital assets, net<br>of related liabilities |                            | 108,256                | 108,256                    |
| Restricted  |                            | 12,236                 | 12,236                     |
| Unrestricted  |                            | <hr/> 98,583           | <hr/> 98,583               |
|   |                            | <hr/>                  | <hr/>                      |
| Total Net Assets  |                            | \$ 125,416             | \$ 219,075                 |
|   |                            | <hr/> <hr/>            | <hr/> <hr/>                |

# CITY OF DURAND, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY JUNE 30, 2008

|  |    |        |
|--|----|--------|
| Fund Balances - total governmental funds | \$ | 93,659 |
|--|----|--------|

Amounts reported for Component Unit activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

|                          |   |          |
|--------------------------|---|----------|
| Capital assets           |   | 936,036  |
| Accumulated depreciation | ( | 102,780) |

Other long term assets are not available to pay for current period  
expenditures and, therefore, are deferred in the funds.

|                     |  |        |
|---------------------|--|--------|
| Special Assessments |  | 17,576 |
|---------------------|--|--------|

Long - term liabilities, including installments payable, are not due and payable  
in the current period and therefore are not reported in the funds.

|                           |   |          |
|---------------------------|---|----------|
| Loan installments payable | ( | 725,000) |
| Accrued interest payable  | ( | 416)     |

|   |    |                |
|---|----|----------------|
| Net Assets of Downtown Development Authority activities | \$ | <u>219,075</u> |
|---|----|----------------|

**CITY OF DURAND, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/  
STATEMENT OF ACTIVITIES  
DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEARS ENDED JUNE 30, 2008**

|   | <u>Actual</u>           | <u>GASB 34<br/>Adjustments</u> | <u>Total</u>             |
|---|-------------------------|--------------------------------|--------------------------|
| <b>Revenues:</b>                            |                         |                                |                          |
| Taxes                                       | \$ 62,580               | \$ 17,576                      | \$ 80,156                |
| Interest                                    | 1,461                   | -                              | 1,461                    |
| Other                                       | 37,848                  | -                              | 37,848                   |
|   | <u>101,889</u>          | <u>17,576</u>                  | <u>119,465</u>           |
| <b>Expenditures/Expenses:</b>               |                         |                                |                          |
| Public Works                                | 739,011                 | ( 617,376)                     | 121,635                  |
| Debt Service-                               |                         |                                |                          |
| Principal                                   | 25,000                  | ( 25,000)                      | -                        |
| Interest and fiscal charges                 | 2,500                   | -                              | 2,500                    |
|   | <u>766,511</u>          | <u>( 642,376)</u>              | <u>124,135</u>           |
| Revenues over (under) expenditures          | ( 664,622)              | 659,952                        | ( 4,670)                 |
| <b>Other Financing Sources:</b>             |                         |                                |                          |
| Bond proceeds                               | <u>700,000</u>          | <u>( 700,000)</u>              | <u>-</u>                 |
| Net change in Fund Balance/Net Assets       | 35,378                  | ( 40,048)                      | ( 4,670)                 |
| Fund Balance/Net Asset at beginning of year | <u>58,281</u>           | <u>165,464</u>                 | <u>223,745</u>           |
| Fund Balance/Net Asset at end of year       | <u><u>\$ 93,659</u></u> | <u><u>\$ 125,416</u></u>       | <u><u>\$ 219,075</u></u> |

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY  
JUNE 30, 2008**

|   |                          |
|---|--------------------------|
| Net change in fund balances - governmental funds  | \$ 35,378                |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. |                          |
| Capital outlay  | 627,036                  |
| Depreciation expense  | ( 9,660)                 |
| Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.   |                          |
| Special assessments   | 17,576                   |
| Repayment of the principal of long-term debt consumes the current financial resources of the component fund, however has no effect on net assets  |                          |
| Bond proceeds   | ( 700,000)               |
| Principal payment on long term liability  | <u>25,000</u>            |
| Change in net assets of Downtown Development Authority activities   | <u><u>\$( 4,670)</u></u> |

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEARS ENDED JUNE 30, 2008**

|  | <u>Budget</u>           |                         | <u>Actual</u>           | <u>Variance With<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|-------------------------|-------------------------|---|
|  | <u>Original</u>         | <u>Final</u>            |                         |   |
| <b>Revenues:</b>                       |                         |                         |                         |   |
| Taxes                                  | \$ 84,400               | \$ 75,000               | \$ 62,580               | \$( 12,420)   |
| Interest                               | 2,000                   | 2,000                   | 1,461                   | ( 539)  |
| Other                                  | -                       | -                       | 37,848                  | 37,848  |
|  | <u>86,400</u>           | <u>77,000</u>           | <u>101,889</u>          | <u>24,889</u>   |
| <b>Expenditures:</b>                   |                         |                         |                         |   |
| Current -                              |                         |                         |                         |   |
| Public Works                           | 12,050                  | 702,650                 | 739,011                 | ( 36,361)   |
| Debt Service-                          |                         |                         |                         |   |
| Principal                              | 25,000                  | 25,000                  | 25,000                  | -   |
| Interest and fiscal charges            | 5,000                   | 5,000                   | 2,500                   | 2,500   |
|  | <u>42,050</u>           | <u>732,650</u>          | <u>766,511</u>          | <u>( 33,861)</u>  |
| Revenues over (under) expenditures     | <u>44,350</u>           | <u>( 655,650)</u>       | <u>( 664,622)</u>       | <u>( 8,972)</u>   |
| <b>Other Financing Sources (Uses):</b> |                         |                         |                         |   |
| Bond proceeds                          | -                       | 700,000                 | 700,000                 | -   |
| Transfers to primary government -      |                         |                         |                         |   |
| Main Street Fund                       | <u>( 32,350)</u>        | <u>( 32,350)</u>        | <u>-</u>                | <u>32,350</u>   |
| Total Other Financing Sources (Uses)   | <u>( 32,350)</u>        | <u>667,650</u>          | <u>700,000</u>          | <u>32,350</u>   |
| Net change in Fund Balance             | 12,000                  | 12,000                  | 35,378                  | 23,378  |
| Fund Balance at beginning of year      | <u>58,281</u>           | <u>58,281</u>           | <u>58,281</u>           | <u>-</u>  |
| Fund Balance at end of year            | <u><u>\$ 70,281</u></u> | <u><u>\$ 70,281</u></u> | <u><u>\$ 93,659</u></u> | <u><u>\$ 23,378</u></u>   |

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Durand as of and for the year ended June 30, 2008, which collectively comprise the City of Durand's basic financial statements and have issued our report thereon dated December 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Durand's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Durand's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City of Durand's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

**There is lack of segregation of duties over certain activities.**

During the audit it was noted that the same individual processes payroll, prepares the checks, makes the direct deposit, maintains blank checks, reconciles the bank account and distributes the payroll checks to department heads.

In addition, we noted that certain bank accounts are maintained, reconciled, and have transfers made by the same individual. Also, the individual is responsible for maintaining the general ledger.

To increase controls, we suggest that duties be segregated so that no one individual has total control over any account or have someone periodically review the bank statement and monthly activity.

**Preparation of the “external” Financial Statements In Accordance with Generally Accepted Accounting Principles.**

New accounting standards require that the City have the expertise and technical ability to prepare the City’s financial statements, including all the notes and GASB No. 34 financial statements, in accordance with generally accepted accounting principles. The city’s finance department routinely prepares “internal” financial reports for management and the City Council to assess the operations and financial conditions of the City throughout the year.

At the end of each year, the accounting department makes various year end adjustments to the “internal” financial statements and provides these reports to us, the auditors, to audit and prepare the City’s “external” financial statements. The “external” financial statements must include not only the number section of the financial report but also very extensive and detailed “notes to the financial statements.”

Although we believe that the City’s accounting staff has the expertise and technical ability to prepare the basic number section of the financial statements, they require our assistance in preparing the notes to the financial statement and for certain technical assistance in preparing generally accepted accounting principle financial statements. We do not recommend any changes to this situation at this time, however, are reporting it as required under professional standards.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

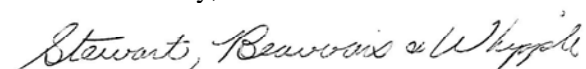
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Durand’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City of Durand in a separate letter dated December 8, 2008.

This report is intended solely for the information and use of management, the members of the city council, and others within the City of Durand, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



December 8, 2008



## AUDIT COMMUNICATION LETTER

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

We have audited the financial statements of the City of Durand, Michigan for the year ended June 30, 2008, and have issued our report thereon dated December 8, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated October 6, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Durand, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Durand, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Planned Scope and Timing of Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated October 6, 2008.

### **Significant Audit Findings**

### **Qualitative Aspects of Accounting Practices**

Management is the responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Durand, Michigan are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2008 fiscal year. We noted no transactions entered into by the City of Durand during the year for which there is a lack of authorization, guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.



Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates effecting the financial statements were:

Management's estimate of depreciation is based on historical data and estimated useful lives. We evaluated key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates for unbilled water and sewer charges are based on subsequent billings and historical data. We evaluated key factors and assumptions used to develop the unbilled water and sewer charges in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement user. The most sensitive disclosures affecting the financial statements were:

The disclosure of the custodial credit risk of deposits in Note 3 of the financial statements indicates the City holds \$763,573 of deposits of which \$301,325 is insured with the remaining \$462,248 uninsured/uncollateralized, is particularly sensitive to the financial users given the risk of a bank failure, the City's deposits may not be returned.

### **Financial Reporting Adjustments**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- To adjust accounts payable to the payroll account.
- To record deferred revenue, revenue, and construction costs for the special assessment.
- To record construction costs, grant proceeds from MDOT and amount due from other funds.

### **Assistance with GASB No. 34 Presentation**

As a result of our assistance with the GASB No. 34 presentation, we proposed several entries to the June 30, 3008 account balances to reflect the difference between the Governmental Fund and the Governmental-wide financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated December 8, 2008.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant factors. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

In the Report on Internal Control Over Financial Reporting and On Compliance and Other Matters, we noted two deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

In addition to the Report on Internal Control we noted a few other items that although are not considered significant deficiencies could improve controls, the operations efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Durand, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We would like to commend management and staff on the assistance provided to us during the audit.

This information is intended solely for the use of the City Council of the City of Durand, Michigan and management and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

## **Attachment A**

The following is an item we discussed with administration that is not considered a significant deficiency, however could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations.

### **All cash receipts should be recorded into the accounting system at the time of receipt.**

It is our understanding that only cash payments and miscellaneous type payments are entered into the accounting system at the time of receipt; tax payments and utility payments are put into a “black box” and receipted at a later time. To increase controls, all receipts should be entered at the time received. Many of our governmental clients are now utilizing electronic scanning devices to record all payments.

### **The accounts payable and payroll accounts should be maintained on the imprest basis and the City investigate utilizing positive pay.**

At the current time the accounts payable account and payroll accounts are not maintained on the imprest basis, whereby the exact amount of checks written are transferred to the accounts. By maintaining the accounts on the imprest basis it reduces that chances that a checks could be modified or prepared and cashed without proper authorization. To increase controls we recommend that these types of accounts be maintained on the imprest basis.

Also, financial institutions are offering a service called “positive pay” whereby checks issued by the City are uploaded to the bank and then they compare the check information, including payee, amount, etc., to the data received directly from the City. This increases controls since any unauthorized modification or fraudulent checks are immediately discovered. Usually the cost of this service is minimal.

### **The City should review and document the administration charges between the various funds.**

The City currently charges an administration fee from the general fund to various other funds of the City for services provided by the general fund. This is a very common and acceptable practice. However, it is our understanding that the method of determining the charges has not been reviewed and updated in a number of years.

We recommend that these charges be reviewed and documentations maintained on why, and the amount that is being charged.

### **The City should establish procedures to ensure that they comply with the City’s investment policy and/or amended the investment policy.**

Although the City complies with Michigan Compiled Laws, the City’s investment policy requires that certain information be obtained and collateralization of 102% be obtained for all certificates of deposit. During the audit, we noted that the City had not obtained collateralization for certification of deposit, annual information from financial institutions, and quarterly reporting to the City Council. We recommend and the Michigan Department of Treasury requires that the City establish procedures to ensure that they comply with the City’s investment policy.

### **The City should consider whether the Durand Union Station activities should be included as a component unit of the City.**

Currently the Durand Union Station operates as a separate nonprofit corporation to account for the operations of the Durand Union Station. It is our understanding that the nonprofit was organized to “support the rehabilitation, development, and maintenance of the Grand Trunk Union Station and for the purpose of establishing the State of Michigan Railroad Museum and Information Center”. However, based on the nature and significance of their relationship to the City, the Michigan Department of

Treasury and Governmental Accounting Standards may require that it be included as a component unit of the City. Statement No. 39 issued by the Governmental Accounting Standards Board titled “Determining Whether Certain Organizations are Component Units” became effective for periods beginning after June 15, 2003 and outlines certain instances where legally separate nonprofit corporations should be reported as a component unit of the governmental unit.

The criteria utilized to determine whether a legally separate, tax exempt organization should be reported as a component unit of a reporting entity includes:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Since the City owns the building, has in the past provided financial support, and the identity of the City is so interrelated with the Depot, we believe that the Durand Union Station would be one of these entities.

We recommend that you review the operations of the Durand Union Station and the new requirements to determine if you agree that it should be reported as a component unit.

#### **City of Durand should consider adopting the following formal policies**

- **Payment of invoices prior to board approval**

It was noted during the audit, the City does not have a board policy for the payment of invoices before board approval. During discussions with City employees, the only payments made before board approval are recurring payments (utilities, phone, etc). The Michigan Department of Treasury requires the board to approve all invoices before payment unless a formal resolution is approved specifying when payment can be made prior to approval.

We recommend the City adopt a resolution for the payment of invoices before board approval. The resolution should state which invoices this applies to.

- **Conflict of Interest**

In a small municipality, the likelihood of the City having transactions with a related party to either a council member, member of management or other personnel is increased. As a result, it is important to have a formal policy to help eliminate any misunderstanding.

We recommend that the Board adopt a conflict of interest policy outlining the areas that would be considered a conflict and when there is a conflict, the procedures that should be followed, such as the member not voting on the issue, disclosing the conflict annually, etc.

- **Electronic Transactions**

Public Act 738 of 2002 requires that each governing body adopt a policy for Automated Clearing House (ACH) arrangements and Electronic Transactions of Fund. The policy should contain procedures and personnel responsible for payment approval, accounting, reporting and general overseeing of compliance issues.

We recommend that a policy be adopted for electronic transactions. In addition, a record of all electronic transactions should be maintained to document which accounts are involved and the purpose of the transfer.